

NON-FINANCIAL  
GROUP REPORT  
2018



# NON-FINANCIAL GROUP REPORT

For us, sustainability is an integral part of our corporate strategy: driven by an awareness of the social, ecological and economic design of the entire value chain, we face the challenges of an increasingly networked and global economy.

Economic success, integrity and social responsibility are goals of our company – regardless of whether we or our segment companies operate in Germany, Europe or other parts of the world. We are consistently committed to sustainability and to providing transparent reporting.

## Report profile

With this report, we are publishing, for the second time, a separate non-financial group report (hereafter referred to as 'non-financial report') in accordance with the GERMAN COMMERCIAL CODE (HGB) and have therefore fulfilled the requirements of the German CSR directive implementation act on a company and group level pursuant to § 315b and c of the HGB, in connection with § 289b to e of the HGB.

This non-financial report contains the legally required information relating to the environment, employees, social matters, respect for human rights and the prevention of corruption and bribery. As part of this report, we disclose which concepts we pursued in the previous financial year and will pursue in the future with regard to the non-financial matters of significance for KAP AG and its segments.

The reporting period for the non-financial report corresponds to the calendar year. Unless otherwise noted, all information provided in the report relates in equal measure to the AG (stock corporation) as well as the group.

The option to base the preparation of the non-financial report on generally applicable frameworks for reporting on sustainability issues was not used, as sustainability management is currently being expanded. We will re-evaluate the application at a later stage.

Within the non-financial report, material risks must be reported in accordance with § 289c (3) (3) and (4) of the HGB if the disclosures are required for an understanding of the development and performance of the business, the position of the group and its impact on non-financial matters. The business segments of the KAP Group are exposed to a variety of risks that inevitably arise from its business activities. The challenge is to take advantage of opportunities and to limit risks. A central component of this process is our risk management system, which is used to manage future challenges with a view to the future. Additional information on risk management in the KAP Group can be found in the 2018 group management report.

A net view of the risks in accordance with the requirements of the German CSR directive implementation act did not identify any risks that very likely have and will have serious negative effects on these aspects.

To date, KAP AG and its segments have not defined any non-financial performance indicators of relevance to management pursuant to § 289c (3) (5) of the GERMAN COMMERCIAL CODE (HGB).

No direct connection was identified between the amounts reported in the annual financial statements pursuant to § 289c (3) (6) of the HGB and the non-financial matters.

The non-financial report was reviewed and approved by the Supervisory Board of KAP AG for legality, correctness and appropriateness.

In this non-financial report, male forms are used for statements about employees, customers or other groups of people; this is done purely for reasons of better readability – of course all information refers to genders of any kind.

## **BUSINESS MODEL**

The KAP Group is a fast-growing medium-sized industrial group with approximately 3,000 employees at 29 locations around the globe. We develop innovative industrial products and forward-thinking technological solutions for industrial and commercial enterprises in the segments of engineered products, flexible films, surface technologies, it/services and precision components.

With a long-term strategy in place, we enjoy an enviable position in attractive market niches with sustainable growth potential. Our focus is on creating margin-heavy industrial segments as specialised market leaders.

As a listed industrial group consisting of segments strong with regard to cash flow and income, we are active in strategically defined markets. Medium-sized companies of different sizes form segments that ideally should be about the same size in terms of revenue and profitability. The result is a portfolio that – in combination – is able to cope with market fluctuations. We continuously review the attractiveness and competitiveness of existing and new segments as well as possible reinforcements in Germany and abroad. We achieve economies of scale, for example in financing, and support a continuous improvement process.

We are fundamentally committed to our companies on a very long-term basis and, as an industrial group, intrinsically act sustainably with our investment decisions. Most companies have been part of the group for more than ten years.

## **STRATEGY AND MANAGEMENT**

Our strategy focuses on long-term company success. We think in terms of markets and customer benefits, not in terms of companies, in order to be able to achieve sustainably attractive margins from which our shareholders also indirectly benefit. As a result, we have defined segments that map out these markets. A clearly defined segment strategy describes the road map for the transformation of existing segments and the development of new segments, with the aim of increasing the profitability and growth of KAP AG.

For us, transparent and responsible corporate governance also means promoting the principle of sustainable development, incorporating it into our decisions and living it in our day-to-day business. Sustainability plays a central role for us: our corporate culture of responsibility and integrity is based on the trust that customers, business partners, shareholders and society place in us.

The respective managing directors are given the entrepreneurial freedom to implement the jointly defined goals, but are embedded in the overall control of the group via our reporting and risk management system, which enables us to counter undesirable developments promptly and efficiently. To manage our segments, we attach particular importance to profitability and liquidity ratios in order to achieve an attractive dividend while, at the same time, increasing the value for our shareholders. We also include sustainability issues in our due diligence processes.

Accordingly, the assumption of societal, ecological and social responsibility is firmly anchored in our organisational structures and an important component of our corporate policy, both in our strategy and in our operating activities.

For the implementation of our sustainability commitment, we successively develop non-financial performance indicators and systematise their recording. Selected key figures, the results of the year under review and their development in the past year are presented in the following sections. Our sustainability management is currently being expanded. Due to changes in the consolidated group, a direct comparability of the annual data cannot be fully guaranteed.

### Key issues

The key issues for the KAP Group in accordance with the CSR directive implementation act result from a materiality analysis that was carried out in 2018. The purpose of the materiality analysis is to identify those issues that are material both to an understanding of the course of business, results of operations and position, as well as to an understanding of the impact of operations on non-financial aspects.

In the course of the materiality analysis, the KAP Group identified 11 material issues in accordance with the CSR directive implementation act. At the group level, there are no significant issues at the environmental, social and employee levels, but at segment level there are. From these issues, we have derived the obligation to generally address areas relevant to us and to develop appropriate concepts at the group level.

In the following table, the key issues of the KAP Group have been assigned to the legally defined non-financial matters and reporting in this report:

<b>Non-financial matters pursuant to § 289 (2) of the HGB</b>	<b>KAP Group issue</b>	<b>Reporting in the section on</b>
Employee issues	Working conditions; (operational) health protection; Safety in the workplace; training and continuing education	'Social and employee matters'
Social matters	Diversity and equal opportunity	'Social and employee matters'
Environmental matters	Energy consumption and emissions; procurement of goods and raw materials	'Environmental matters'
Fighting corruption and bribery	Compliance; preventing corruption and bribery	'Ethical behaviour in the KAP Group'
Respect for human rights	Respect for human rights	'Ethical behaviour in the KAP Group'
Additional non-financial matters	Security of information and protection of data	'Ethical behaviour in the KAP Group'

## **ETHICAL BEHAVIOUR IN THE KAP GROUP**

Responsible and ethical conduct towards our employees, business partners of the company and the environment is an integral part of KAP AG's value system.

Our actions, management philosophy and vision are guided by the values set out in our Code of Conduct. KAP AG's Code of Conduct, which was introduced in 2017, applies to our global activities and has been translated into the respective group languages. For us, this code is a common guideline for our decisions and actions: it sets out binding minimum standards for responsible conduct towards business partners and the public, but also for our conduct and dealings within the KAP Group. The code is intended to show our employees and business partners what conduct is desirable for KAP AG in the respective categories and to facilitate an understanding for and the implementation of such conduct. With the Code of Conduct, we commit ourselves to complying with internationally recognised social standards, including, for example, the Universal Declaration of Human Rights and the UN Global Compact.

### **Compliance**

Compliance with law and order in our business activities is a matter of course for us. Non-compliance is not only inconsistent with our values, but it can also result in significant financial loss and jeopardise our reputation. Non-compliant behaviour always reduces the economic success of the company, limits the ability to invest and grow and can ultimately endanger jobs. Violations of law and order harm everyone in the company – our shareholders, our partners, our corporate governance and our employees.

The rules of conduct are binding for KAP AG and all its affiliated companies. Everyone – all members of the Management Board and Supervisory Board, segment managers, members of the executive bodies, executives and employees of the KAP Group – is obliged to familiarise themselves with the content of this Code of Conduct and to act accordingly.

KAP AG introduced a formalised compliance management system in the course of 2017 and further expanded it in the 2018 reporting year. The compliance management system covers topics such as corruption and antitrust law, human rights, labour and social standards and conflicts of interest, as well as trade control and data protection. The principles of the compliance management system were laid down in a policy of the same name at the end of 2017.

The chief compliance officer (CCO) determines important topics for strengthening compliance within the group and is responsible for the promotion and monitoring of compliance activities in the KAP Group. The CCO is supported by the compliance manager. The protection of personal data at KAP AG is monitored by an external data protection officer.

The responsible employees in the segments report regularly to the CCO on progress and events in accordance with the compliance management guidelines. The CCO regularly reports to the Management Board and the Supervisory Board on the progress of compliance activities and important compliance matters within the KAP Group.

In the year under review, the newly acquired medium-sized companies in 2017 also continued to improve the corresponding compliance structures and successively introduce them uniformly throughout the entire KAP Group.

### **Whistle-blower system**

In April 2018, KAP AG carried out a conversion of the whistle-blower system. Since the previous system in the form of an ombudsman was used only occasionally, an electronic whistle-blower system that can be used independent of location now offers all employees and third parties the opportunity to anonymously contact the compliance department on request in accordance with the recommendation of clause 4.1.3 of the German Corporate Governance Code. The electronic whistle-blower system is available on the KAP AG website.

### **Preventing corruption and bribery**

KAP AG established the basic rules for the prevention of corruption and bribery in the form of the Code of Conduct and the anti-corruption guideline. These rules include – but are not limited to – prohibiting the acceptance of gifts and entertainment and the receipt or payment of bribes. In 2017 a group guideline on gifts and invitations was introduced worldwide to concretise the anti-corruption guideline. This guideline is intended to make it easier for employees to understand and deal with these topics and, at the same time, to make it easier for them to do so. In addition, training on this topic was conducted in the respective group languages in the form of e-learning. In order to improve measures to prevent bribery and corruption, a guideline on reviewing business partners was implemented in the 2018 reporting year as a further concretisation of the anti-corruption guideline.

In the 2018 reporting year, the KAP Group was not aware of any cases of bribery or corruption.

### **Further and planned compliance measures**

In the 2018 reporting year, the group guideline on antitrust law and fair competition was introduced as a supplement to the commercial sanctions guideline. The associated training in the form of e-learning on fair competition was also carried out.

Further guidelines – for instance on export controls or tax law – will also be implemented in the 2019 financial year and accompanied by training in the form of e-learning.

The business partner guideline introduced in the year under review is supported by the SAM3 sanction control software, which has already been implemented at many subsidiaries in the year under review and which is to be installed at all relevant companies in the 2019 financial year. With the planned introduction of the export control guideline, the software TCT will also be made available, enabling companies to check exported goods and services. The first installations are planned for spring 2019.

In addition, further update training courses on the aforementioned individual guidelines in the form of e-learning are planned on an ongoing basis.

### **Security of information and protection of data**

Information security is one of the most important demands on every modern company. Both company data as well as personal customer and employee data are protected against unauthorised access, unauthorised or improper use, loss and premature destruction by all technical and organisational means at our disposal. When collecting, storing, processing and transferring personal data of employees, customers and third parties, we always proceed with the greatest care and strict confidentiality and in compliance with applicable laws.

KAP AG and its segment companies have appointed an external data protection officer who monitors compliance with legal data protection regulations. In the 2018 financial year, employee training courses were held in the form of e-learning on data protection and information security, in particular with a focus on the entry into force of the General Data Protection Regulation (GDPR) of the European Union. In addition, the evaluation of existing IT security has begun. Improvement measures will be planned after the results have been analysed.

In the 2018 reporting year, the KAP Group was not aware of any cases of violations of data protection provisions.

### **Respect for human rights**

The KAP Group is committed to respecting universal human rights. As a company with a globally growing business, we regard respect for human rights as one of the basic conditions of our business activities. This is in line with our corporate goal of contributing to a sustainable society. For this reason, we reject all forms of child labour, forced and compulsory labour, modern slavery and human trafficking.

KAP AG respects the individuality and privacy of all employees and combats all forms of discrimination, whether based on ethnic or social origin, gender, skin colour, religion, sexual orientation, disability or age.

In order to do justice to this expectation, possible violations of human rights can be reported in each country via the whistle-blower system. The supply chain is included in initiatives to ensure respect for human rights. Together with business partners who supply raw materials and parts and carry out production orders on a commission basis, we aim to strengthen their human rights activities.

A code of conduct for suppliers was introduced in the 2017 financial year to ensure 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 guidelines on human rights, working conditions, environmental protection and the fight against corruption and bribery.

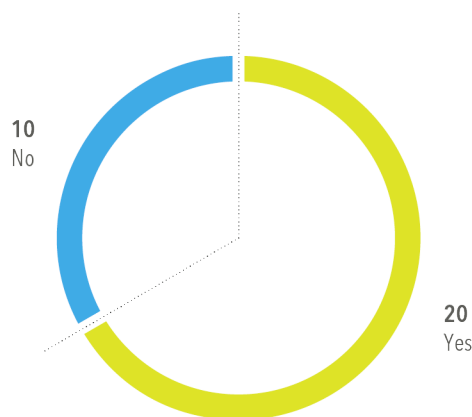
## SOCIAL AND EMPLOYEE MATTERS

Our employees are our most valuable resource. It is our responsibility to create fair working conditions, create development opportunities, promote their health and guarantee equal opportunities for all. Our goal is to be perceived as an attractive employer and to sustainably develop the potential of our employees.

### Working conditions

Fair and transparent working conditions are a matter of course for us. Working hours in almost all companies are 40 hours per week. In 20 of the companies surveyed (2017: 18), flexible working time models such as flexitime are available to employees. In 2018, 1,562 (506) employees at the KAP Group's locations in Germany had the opportunity to take advantage of flexitime. Furthermore, it is possible to work part-time at all locations in Germany. There are strong country-specific differences in holiday entitlement. However, all companies – with the exception of the American and Chinese companies – grant between 20 and 30 days of holiday per year.

Companies with flexible working hours models



Almost two-thirds of the companies also have employee representatives. There are trade union representatives at one-third of the companies. Most companies offer legal protection against dismissal in accordance with respective national law. An electronic whistle-blower system that can be used at any location offers all employees and third parties the opportunity to contact the compliance department anonymously if they wish. These include, in particular, violations of labour law protection regulations. The electronic whistle-blower system is available on the KAP AG website.

### (Operational) health protection

The health of our employees is of the utmost importance to the KAP Group. In order to minimise occupational hazards and illnesses, most sites provide medical care in accordance with national work and health regulations. In 25 (22) companies of the KAP Group, the care of employees by a company doctor is possible, and in 23 (19) companies, examinations by the company doctor are obligatory for the employees. In addition, the health of employees is analytically monitored in 14 (15) companies. This results in measures such as the improvement of working conditions, the design of workplaces in line with ergonomic criteria and the creation of low-impact workplaces. In special cases, there will be a change of function in the company if necessary. A total of 16 (13) companies conduct health return interviews, and 13 (eight) companies have an operational integration management system. In addition, ten (eight) companies already have a company health management system. Ten (11) companies offer



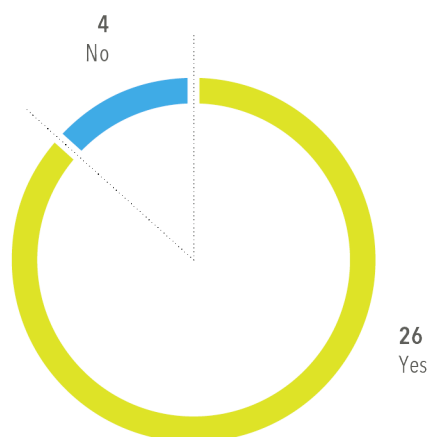
health promotion measures provided by five (three) companies through a partnership with a social agency or similar organisation.

The objective for the future is to maintain occupational medical care at the current high level and, if necessary, to integrate other locations into the care provided by occupational health practitioners.

### Safety in the workplace

Occupational safety is a high priority in the KAP Group. Of the total of 30 (26) companies surveyed, 26 (23) have a safety officer and 27 (24) companies have safety checks that are carried out at regular intervals. Depending on the company, these security checks take place on a continuous basis – weekly, monthly, quarterly or annually. A total of 28 (21) companies keep accident statistics, and ten (nine) companies specifically record and document near misses. Additionally, 23 (19) companies carry out safety audits. Furthermore, 17 (12) companies have a representative for hazardous substances, and all companies provide regular instruction and training on occupational safety. Almost all companies are receive training on the topic from external service providers. The training courses range from monthly department-specific courses to annual safety briefings that are documented in writing. In addition, 26 (21) companies comply with noise limits, and there is an obligation to wear hearing protection in 20 (19) companies. In future, all locations of the KAP Group are to be looked after by a safety officer. Occupational accidents are also recorded in particular in management reporting.

Companies with safety officers



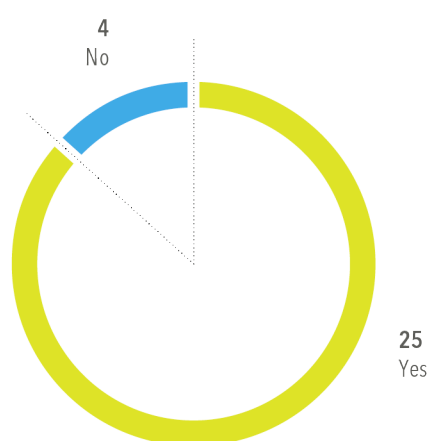
### Training and continuing education

Occupational training of employees takes place in 50% of the companies of the KAP Group. Training occupations are in the commercial, technical and process engineering fields. Furthermore, training paths are offered in the IT and electrical fields. The number of trainees and interns in the KAP Group amounted to 61 (85) as of 31 December 2018.

Additionally, management trainees are recruited from amongst graduates of dual as well as regular courses of study. In some companies, long-term and close partnerships are maintained with schools and universities, even beyond joint development projects. Companies of the KAP Group regularly offer support for student research projects and dissertations in order to establish contact with potential management trainees. At the group headquarters in Fulda, the KAP Group regularly organises booths at regional job fairs for the group companies located at the group headquarters. Concepts are currently being worked on for similar recruitment events to be held at other locations.

Employees of the KAP Group are offered various opportunities for continuing training and education. Management trainees are also being developed in a targeted manner, which strengthens the loyalty of employees to their companies. The spectrum here ranges from internal training courses and workshops, specialist seminars, certification courses and technician and master training through to language courses and management training. In the future, a sort of ‘KAP university’ will offer managers and management trainees the opportunity for further internal management training. In the medium term, the introduction of a strategic management training programme is being evaluated.

Training opportunities offered in the companies



### Diversity and equal opportunity

We promote diversity and equal treatment regardless of the ethnic or social origin, gender, colour, religion, sexual orientation, disability or age of our employees.

KAP AG pays special attention to the recruitment, retention and promotion of women. There are already a large number of management positions filled by women. The group employed 72 (56) women in management positions in 2018. Management positions are positions that are located directly below the Executive Board. The number of women in management positions ranges from zero to seven (13) in the individual companies. For this reason, women are to be promoted more strongly in the future in companies in which still few or no women are employed in management positions.

The proportion of women in employment as a whole varies widely between companies, ranging from 3% to 73%. The differences can be explained, among other things, by cultural peculiarities. The proportion is lowest at the MEP site in India at 3%, and at OMT Fulda the proportion of women is highest at 73%. A high proportion of women can be found in Eastern European companies in particular (Technolen, Czech Republic, with 65%; BEBUSCH, Hungary, with 63%; Minavto, Belarus, with 50%). On average, the survey found a figure of just over 30% women in the KAP companies.

All KAP companies grant their employees the same remuneration for comparable work. Similarly, all employees have equal opportunities for advancement regardless of ethnic or social origin, gender, colour, religion, sexual orientation, disability or age.

## ENVIRONMENTAL MATTERS

We assume social responsibility, which is why we are actively committed to environmental and climate protection and promote the responsible use of natural resources in our segments.

We focus on implementing processes in production, sales and administration that conserve as much energy and resources as possible in the segments. By reducing our requirements for electricity, heat and water, we not only reduce energy consumption and emissions resulting from use, but also reduce the share of energy costs in our total costs. Wherever it makes sense, we generate our own energy through photovoltaics, combined heat and power plants, heat feedback or heat exchange systems.

The results of the materiality analysis show that our companies have comparatively low environmental impacts at the group level in terms of resource consumption, waste, energy consumption and the resulting emissions of greenhouse gases. Around 80% of our production sites are located in the European Union and are therefore subject to strict legal requirements regarding plant safety and environmental protection. The companies in the surface technologies segment tend to deviate from this due to the special production processes in electroplating. In recent years, however, investments have been made in environmental technology and procedural processes in order to counter the relevant environmental pollution. As a result, legal regulations were exceeded, various audits were successfully carried out and the corresponding ISO certifications were granted.

Our sustainability management is currently being expanded. Due to changes in the consolidated group and necessary adjustments to the data collection processes, we have largely dispensed with quantitative reporting on our environmental indicators in this reporting year.

### Energy consumption and emissions

In order to make our production processes as energy- and resource-friendly as possible, we continuously implement measures aimed at energy efficiency. In addition, we are increasingly focusing on the use of renewable energies.

In total, more than half of our companies procure a portion of their electricity from sustainable sources. Through the use of photovoltaic systems, combined heat and power plants and heat feedback systems, the share of renewable energies is in some cases already just under 50% of the total amount of electricity purchased. This percentage is to be further increased over the next three years, which will be done by taking into account the location-specific characteristics of our segment companies outside the European Union.

In order to improve energy efficiency in the future, the KAP Group has set itself the target of reducing energy consumption by 3% by 2020 compared with the reference year 2017. Since energy requirements and greenhouse gas emissions (GHG emissions) are influenced to a large extent by the output volume in production, it seems sensible to us in the course of our growth strategy not to take the absolute energy consumption as an indicator, but rather the energy intensity (energy consumption in relation to sales) and the GHG emission intensity (CO<sub>2</sub> emissions in relation to sales). However, our heterogeneous production structure in the individual segments must be taken into account, which leads to different measures.

Almost all companies already have various initiatives aimed at reducing electricity consumption, with the focus on the energy management system according to ISO 50001: the norm contains standardised approaches for recording energy flows in companies. From this norm, the companies derive technical measures to improve energy efficiency as well as strategic and organisational management approaches. Many of the companies that do not currently have ISO 50001 certification are looking to do so in the near future. In the medium term, we aim to achieve uniform ISO 50001 certification for all major sites in the European Union in order to introduce guidelines for the efficient use of resources.

### Heat

The use of fossil fuels to generate heat in production processes is not significant at the group level. In the engineered products segment, however, heat is indispensable in many areas of production, and the use of natural gas as an energy source predominates.

Our companies are striving to further reduce consumption in the future by optimising processes, using heat recovery or optimising the energy efficiency of their production sites – which is why we will increasingly work to include alternative sources of energy in our planning.

### Water

Water consumption in the production processes of our segments varies greatly. Direct costs usually play a subordinate role. Nevertheless, we want to deal responsibly with the resource of water and, for this reason, include sustainable water management in our reporting.

Measured by the size of the segment, water consumption in the surface technologies segment is significant. The quantities of water used here are fed into the production process several times by means of ultra-modern treatment plants and ultimately completely treated, and the filtered waste products are recycled. In addition, recirculation water systems and service water systems are installed at some other locations.

In the year under review, many of our companies worked on efficiency measures to reduce water consumption. Additionally, some of the companies examined the substitutability of other liquid substances for water.

For the future, investments are planned to maintain the high standard of our water management and to reduce the relative amount of water used.

### Procurement of goods and raw materials

Sustainability in the KAP Group does not end at the company's borders: in line with our holistic commitment to sustainability, we also involve our suppliers and the associated processes.

The majority of our companies have their own procurement guidelines. At present, however, there is no uniform group-wide sustainability guideline for the procurement of goods and raw materials. This did not appear necessary in the past due to the decentralised organisational structure of the KAP Group. Our objective for the next three years is to integrate these sustainability aspects – in line with the special characteristics of the various segments – more closely into our procurement processes.

[www.kap.de](http://www.kap.de)

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