

Engineering Excellence

Non-financial group report 2021



kap

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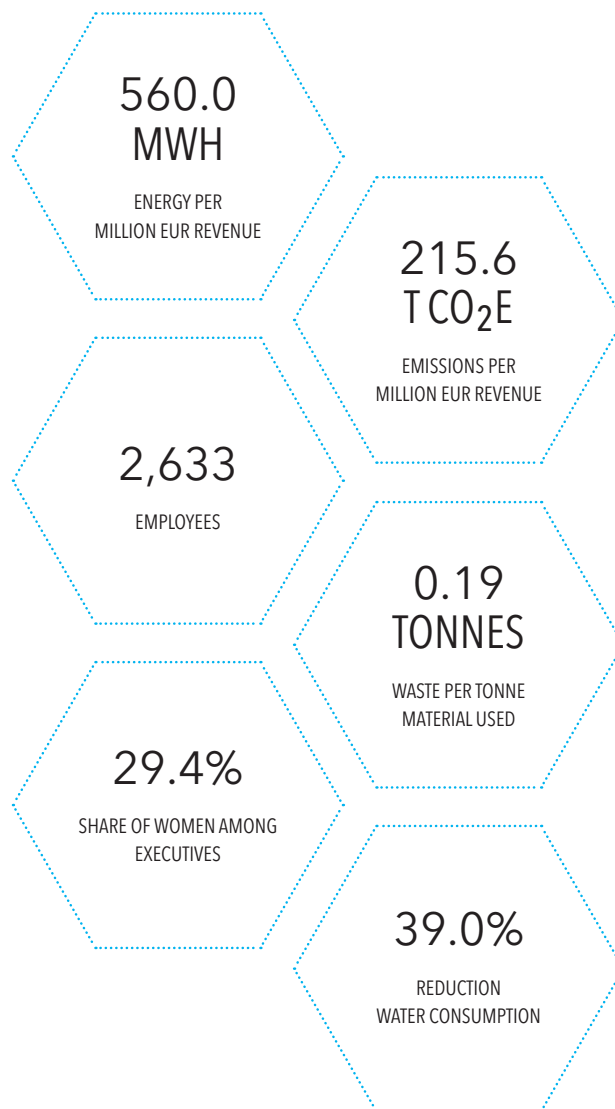
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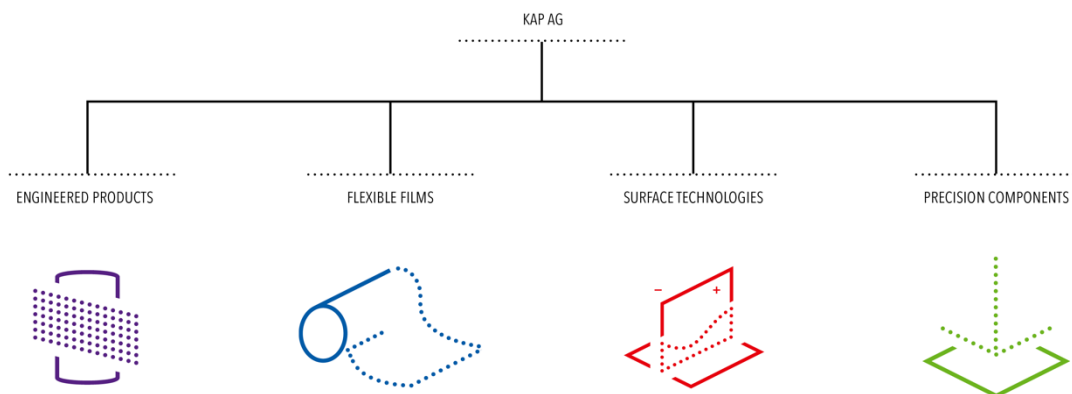


ABOUT KAP

BRIEF INTRODUCTION TO THE SEGMENTS AND BUSINESS MODEL

GRI 102-1, 102-2, 102-4, 102-5, 102-7, 102-8, 102-10

KAP AG is a listed industrial holding company in the upper mid-size market with its registered office in Fulda. As the parent company, KAP AG particularly performs the higher-level functions of strategic corporate development and the further development and creation of the segment strategies based on a buy-and-build approach. The Group's operating business was divided into four segments in the year under review: **engineered products**, **flexible films**, **surface technologies** and **precision components**. The process of selling the **it/services** segment was initiated in the third quarter of 2020, and the segment was sold on 30 June 2021.



The **engineered products** segment develops, produces and sells technical textiles with a global presence at eight sites. The areas in which our yarns and fabrics are used include power transmission belts in the automotive and agricultural sector, air springs in the field of road and rail transport, and reinforcement for flexible feed pipes for the oil and gas industry. In addition, our technical textiles are used, for example, as reinforcing supports in rubber products such as conveyor belts and brake diaphragms, or as carrier materials for coated end products. Our solutions are a key element for the characteristic performance required in our customers' specific application areas.

The **flexible films** segment is a leading specialist in Europe in extrusion, coating, calendering and the conditioning of coated products. We develop, produce and sell flexible films and composite materials for various attractive niche markets and application areas. Our product portfolio includes a wide range of system solutions for energy-efficient construction, innovative semi-finished products for water management, environmentally friendly tarpaulin fabrics and composite materials for the construction of greenhouses, semi-finished products for medical applications, high-tech projection screens and high-quality, design-oriented waterproofing membranes for swimming pool construction.

The **surface technologies** segment carries out a wide range of surface processes for our customers. We focus on innovative technical and chemical processes for refining metallic materials – aluminium, magnesium, zinc die-casting or steel. We make a decisive contribution to the long-lasting protection of our customers' products from corrosion and wear. We address a wide range of end markets, including furniture, the food industry, mechanical engineering, the electrical industry and the automotive sector.

The **precision components** segment develops, produces and sells highly complex plastic and plastic-metal-composite parts. Our portfolio includes plastic gears, gears with extrusion-coated metal shafts and related metal products that are used particularly in special electronic or electromechanical drives. Selected areas of application for our high-precision gears include e-bike applications, power-steering components and parking brakes.

For an in-depth description of our business model and the segments, please refer to pages 16-12 and page 34 of the 2021 Annual Report.

SUSTAINABILITY MANAGEMENT

STRATEGY AND MANAGEMENT

GRI 102-18, 102-40, 102-42, 102-43, 102-44, 102-46, 102-47, 103-1, 103-3

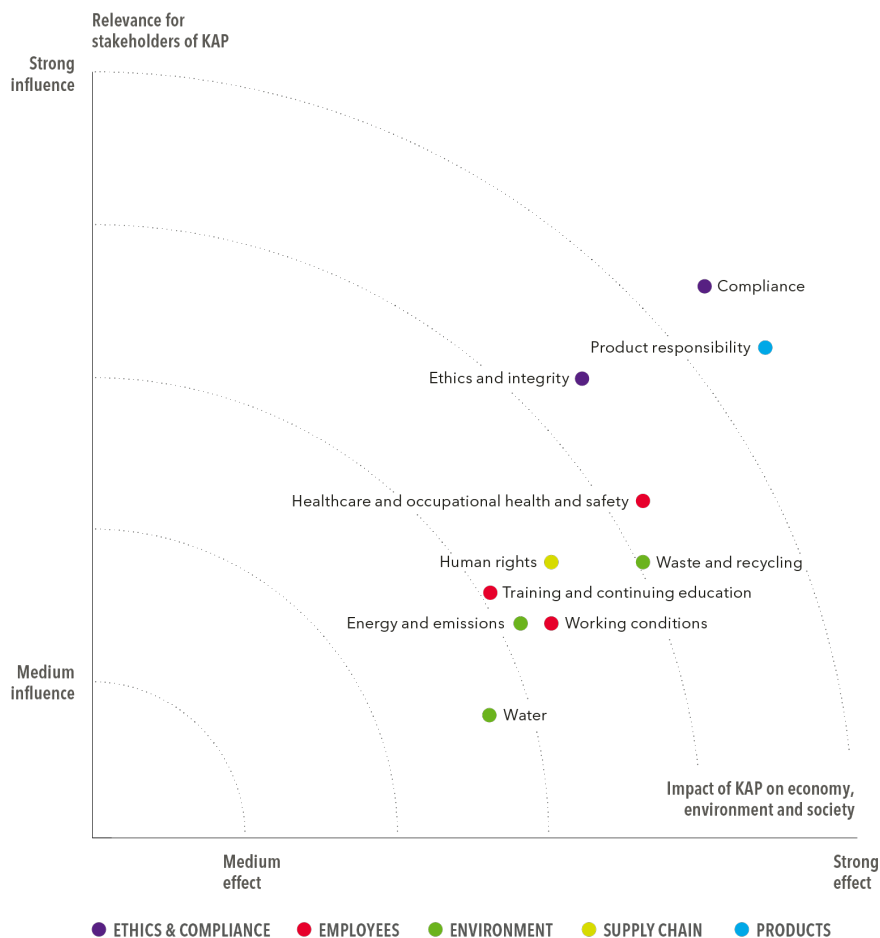
KAP AG is committed to responsible corporate governance in all participating companies. Financial success, integrity and social responsibility are all of equal importance to KAP – regardless of whether we or our segment companies operate in Germany, Europe or in other parts of the world.

We pursue the guiding principle of sustainable and future-proof development and focus on individual Sustainable Development Goals (SDGs) of the United Nations in our business activities. While implementing all the Sustainable Development Goals is very important, four SDGs have been prioritised for KAP: SDG 5 (gender equality), SDG 8 (decent work and economic growth), SDG 9 (industry, innovation and infrastructure) and SDG 13 (climate action).

Materiality analysis

In accordance with the German CSR Directive Implementation Act (CSR-RUG), in 2019 we used a materiality analysis to identify the topics that are of material importance for understanding the business performance, operating result and Group position and also for understanding the effects of business activities on non-financial issues. In addition, we considered whether the topic significantly influences the company-related assessments and decisions of our stakeholders.

The multi-stage process included creating a catalogue of topics on the basis of peer-group analyses, legal requirements and standard frameworks for sustainability reporting, summarising the topics into overarching areas, and surveying those responsible within the holding company and the segments about this using an online survey tool. The next materiality survey will take place in 2022.



At the end of 2021, the materiality analysis was internally validated as part of strategy development. Some adjustments and amendments that also impact the structure of this report arose from this. For example, the previous material topics of "Anti-corruption and anti-bribery" and "Data privacy" have been allocated to the topic of "Compliance". The topic of "Product safety" is being handled under "Product responsibility". Overall, the validated materiality analysis thus yields ten material topics pursuant to the German CSR Directive Implementation Act. No legally relevant social issues were identified.

This results in corresponding changes to the materiality matrix.

Strategy

For us, responsibility and integrity are the basis of the trust that our customers, business partners, shareholders, society and our employees place in us. That is why we developed our KAP ESG Strategy 2025 in 2021.



The structure of the KAP ESG Strategy 2025 is based on our material topics. It contains 25 strategic objectives and four overarching objectives for our sustainability management. Each objective is fleshed out by measures that are assigned a time frame. Progress is measured using defined KPIs.

Action Areas	Material Topics	Targets
General: Sustainability management		<ul style="list-style-type: none"> – Expansion of the ESG organisation – Expansion of our sustainability reporting – Expansion of our stakeholder dialogue – Obtaining and continually improving ESG ratings
Ethics & Compliance	Compliance	<ul style="list-style-type: none"> – Expand compliance management and communication with the segments even further – Expand the whistleblower system and regularly analyse risks – Expand target-group-specific compliance training – Ensure regular compliance audits – Further improve data protection and information security and regularly put these to the test
	Ethics and integrity	<ul style="list-style-type: none"> – Expanding the Code of Conduct and always requiring its implementation – Commitment to and support of global value-based alliances

Employees	Working conditions	<ul style="list-style-type: none"> – Increasing KAP's attractiveness as an employer – Promoting diversity at KAP
	Training and continuing education	<ul style="list-style-type: none"> – Expand HR development measures and improve monitoring – Recruit at least 20 % of the managers from our own ranks – Expand the number of trainees and, where possible, take on 100 % of the trainees and students on dual study courses
	Healthcare and occupational health and safety	<ul style="list-style-type: none"> – Promote health and ergonomics at KAP – Promote occupational safety
Environment	Waste and recycling	<ul style="list-style-type: none"> – Expand waste management and identify key types of waste – Make greater use of recycling at KAP – Sustainable use of raw materials and packaging by KAP and its clients
	Energy and emissions	<ul style="list-style-type: none"> – Expanding environmental management and fully recording material energy and emissions data – Increasing energy efficiency and reducing energy consumption by 10 % by 2025 – Avoiding and reducing emissions
	Water	<ul style="list-style-type: none"> – Reduce specific water consumption in production processes
Supply Chain	Human rights	<ul style="list-style-type: none"> – Call for occupational health and safety as well as human rights to be respected in our supply chain
Products	Product responsibility	<ul style="list-style-type: none"> – Assure quality management process – Continuously improve product and process safety – Improve energy-efficiency and environmental impact of products and manufacturing processes

Sustainability management at KAP

We have set ourselves four objectives for our sustainability management:

1. Expansion of the ESG organisation
2. Expansion of our sustainability reporting
3. Expansion of our stakeholder dialogue
4. Obtaining and continually improving ESG ratings

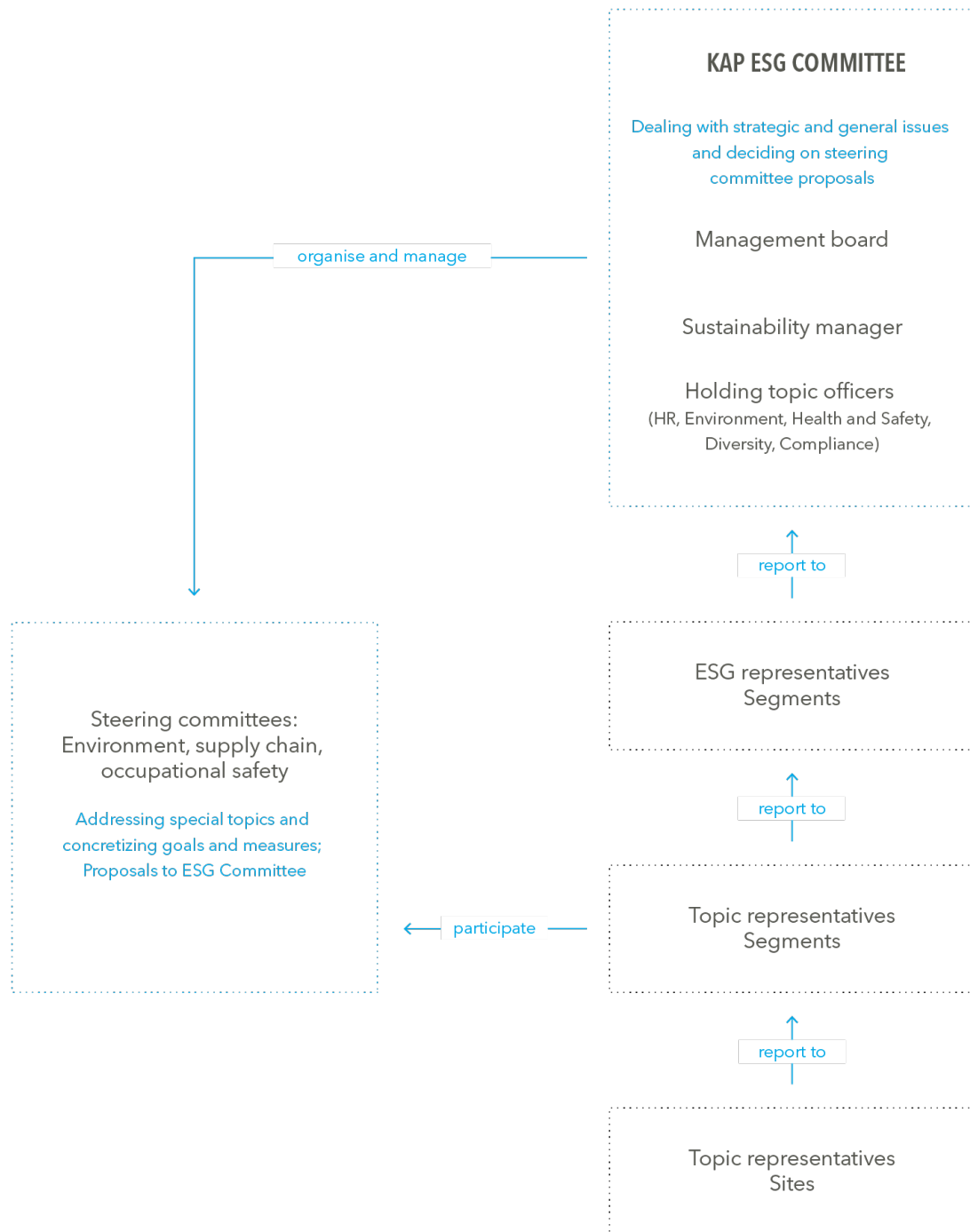
These four objectives are the basis for implementing all the other sustainability objectives. Continuous progress is only possible with a well-positioned organisation and clear responsibilities. The Management Board of KAP AG gives the topic high priority and supports the implementation of the KAP ESG Strategy 2025 in full.

The ESG strategy's first important step consisted of defining responsibilities in concrete terms. From 2022, sustainability is to be reorganised at KAP in accordance with our objective of expanding the ESG organisation. To this end, we are creating the new position of a sustainability manager and setting up two new sets of committees: the ESG committee and the newly introduced steering committees.

The ESG Committee has overall responsibility for implementing the strategy. It ensures that sustainability and business ethics are firmly anchored within our corporate strategy and management and in our day-to-day actions. It is also responsible for non-specific sustainability issues such as reporting and sustainability management.

The ESG Committee consists of the members of the Management Board, KAP's sustainability manager and the holding company's topic officers for the topics of human resources and compliance. The topic officers for the topics of occupational safety and diversity are also to be appointed and included in the committee during 2022.

The members will deal with the strategic direction of sustainability management at regular meetings and monitor progress regarding the objectives. They also review and decide on suggestions and recommendations made by the steering committees. The meetings are organised by the sustainability manager and prepared in collaboration with those responsible for the topics. The content is supplied by the segments.



Sustainability is also managed by our sustainability manager in day-to-day business. The sustainability manager is the point at which the various issues are to be brought together and is supported by the newly appointed topic officers. Additional topic officers will be added in the coming months and years.

The topic officers organise and manage the second set of committees: the steering committees. From 2022, three steering committees will be set up for specific sustainability topics: for the environment, our supply chain and occupational safety. The purpose of the three steering committees is to deal with special topics across segments. They are to hold regular meetings at which they review the objectives and measures for consistency and update them. For major adjustments, proposals are developed that are decided in the ESG Committee.

In addition to the Group's topic officers for the environment, occupational safety and our supply chain, representatives are appointed from the segments and take part in the steering committee meetings. They consolidate the individual segment sites' reports and represent the segments. The managing directors of the segments have the entrepreneurial freedom to independently implement and extend the jointly defined objectives.

Transparency and stakeholder dialogue

Transparency is an important corporate value for KAP. Orienting the organisation and transparency towards the needs of our stakeholders requires regular communication with stakeholders. Through open dialogue with our stakeholders, we are able to identify their interests and possible conflicts of interest at an early stage and deal with them in dialogue. All interested stakeholders should receive the information that they need. This enables us to run our business successfully in the long term. We want to achieve a situation where all stakeholders view KAP AG as a company with positive attributes. In our KAP ESG strategy, we have therefore set the objective of expanding stakeholder dialogue by regularly actively contacting all the relevant stakeholders. The relevant stakeholder groups are listed below:

Stakeholder groups	Communication channels
Investors/ Shareholders	Mail, telephone, reporting, conferences, website, press and ad hoc releases, social media, exhibitions
Customers	Newsletter, mail, phone, website
Employees	Internal journals, announcements, mail
Suppliers	Mail, phone
Banks	Mail, phone
Interested public	Newsletter, website, reporting, social media, press releases
Non-governmental organizations	Website, reporting, press releases
Sustainability movement	Reporting, website

Our sustainability reporting occupies a special place in the dialogue with our stakeholders. For this reason, we have set ourselves the objective of further expanding our sustainability reporting. We are already implementing one measure this year and are using the framework of the GRI Standards in the core option. To be able to collect the necessary data, it was determined in the context of the ESG Strategy 2025 that additional contacts at the sites are to be named step by step from 2022 and the use of ESG software is to be reviewed. In the course of the year, we will also prepare a screening of suitable accountancy firms to externally audit our non-financial reporting for the first time in the following year.

From 2022, we also and especially want to take a step forward in the area of ESG ratings, commission initial ratings and join the UN Global Compact.

ETHICS & COMPLIANCE

Acting fairly, with integrity and in compliance with the law

As a company, KAP is integrated into its social environment and the natural environment. In addition to many advantages, this also gives rise to responsibility: the responsibility to operate in a sustainable way and on the basis of firm moral foundations and the responsibility always to comply with all laws and regulations.

The field of ethics and compliance includes the two material topics of "Ethics and integrity" and "Compliance".

ETHICS AND INTEGRITY

GRI 102-11, 102-12, 102-16, 412-2

For us, corporate ethics means acting responsibly and socially on the basis of moral values – towards employees, business partners, society and the environment. We strive to protect the Company against any possible damage and demonstrate our integrity through ethical conduct within the Group and in our interactions with external stakeholders and by respecting all relevant (inter)national legal requirements as well as human rights.

As part of the KAP ESG Strategy 2025, the following objectives were developed and set in relation to ethics and integrity:

1. Expanding the Code of Conduct and always requiring its implementation
2. Commitment to and support of global value-based alliances

Management approach

Ethics and integrity are corporate governance topics at KAP. The Management Board and Supervisory Board have the main responsibility in the context of corporate governance. All content in the area of ethics and integrity that is not covered by corporate governance is strategically managed in the new ESG Committee. Progress on the aforementioned objectives is reviewed regularly.

The Investor Relations and Legal & Compliance departments bear the operational responsibility. In the implementation of good corporate governance, we base our actions on the recognised standards set out in the German Corporate Governance Code (GCGC). The KAP Management Board and Supervisory Board release a declaration of conformity every year, which we make available to the public. You can find an in-depth description of our corporate governance strategy at KAP on page 22 of the 2021 Annual Report.

It is important to anchor KAP's shared values in a clear structure. The Legal & Compliance department is responsible for this in collaboration with the regional compliance managers (RCMs). More details on compliance management can be found in the section "Compliance".

Value-based management

Ethics and integrity must be practised by the Group's management but must also have great importance in day-to-day business. KAP's Code of Conduct, which was introduced in 2017, is very important for this.

The code, which is translated into all the relevant languages, applies to our activities worldwide and for us represents a shared guideline for our decisions and actions. It specifies binding minimum standards for responsible conduct towards business partners and the public but also for our conduct and our interactions within the KAP Group.

Various measures have been drafted to achieve the strategic objective of expanding the Code of Conduct and requiring its implementation at all times. For example, the Code of Conduct is to be extended to include additional sustainability topics in 2022.

In order to be able to adapt the content of the Code of Conduct to special circumstances, the segments and sites are at liberty to make the Code of Conduct more specific and extend it through additional guidelines. The content of these guidelines must never be less ambitious than the KAP Code of Conduct itself.

The Code of Conduct is presented to all new employees when they join for their information and confirmation or made available to them using an electronic system (the “policy manager”). Furthermore, regular training is to be held on the Code of Conduct to ensure that employees are always aware of current issues.

Business ethics initiatives

Our Code of Conduct commits us to an ethical course of action that shows integrity but also to compliance with internationally recognised values in our corporate decisions. In line with the strategic objective of committing to and supporting global value-based alliances, we joined the UN global Compact in 2022. From the moment we join, we will actively participate in the Global Compact Network Germany.



THE UN GLOBAL COMPACT

The UN Global Compact is the world’s largest and most important initiative for sustainable and responsible management. The Global Compact was announced in 1999 by then UN Secretary-General Kofi Annan and established in 2000. Companies that have signed the Global Compact commit to upholding and promoting ten universal principles in the areas of human and labor rights, the environment and anti-corruption. In this way, sustainability is strategically anchored, the interaction between business, politics and civil society is strengthened and a contribution is made to the Sustainable Development Goals.

More than 19,000 companies and organizations worldwide have signed up to the UN Global Compact - and the number is growing.

In 2022, we will also commit to comply with the ILO core labour standards and take responsibility for them in our supply chain. We are also looking into committing to further international initiatives such as the UN Guiding Principles on Business and Human Rights or the OECD Guidelines for Multinational Enterprises.

COMPLIANCE

GRI 102-11, 103-2, 103-3, 205-1, 205-2, 206-1, 403-2, 418-1

For us, 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 around the world with all of the markets in which we are active.

Compliance is also highly relevant in the areas of information security and data protection. Both company data and the personal data of customers, employees or third parties are protected against unauthorised access, illegal use or misuse, loss and premature destruction through the use of all technical and organisational means available.

A particular focus is on the prevention of corruption and bribery. We completely reject any form of corruption. Unlawful conduct is not only irreconcilable with our values, it also damages everyone in the Group: our shareholders, our partners, our management and our employees.

The KAP ESG Strategy 2025 includes a total of five objectives in the area of compliance:

1. Expand compliance management and communication with the segments even further
2. Expand the whistleblower system and regularly analyse risks
3. Expand target-group-specific compliance training
4. Ensure regular compliance audits
5. Further improve data protection and information security and regularly put these to the test

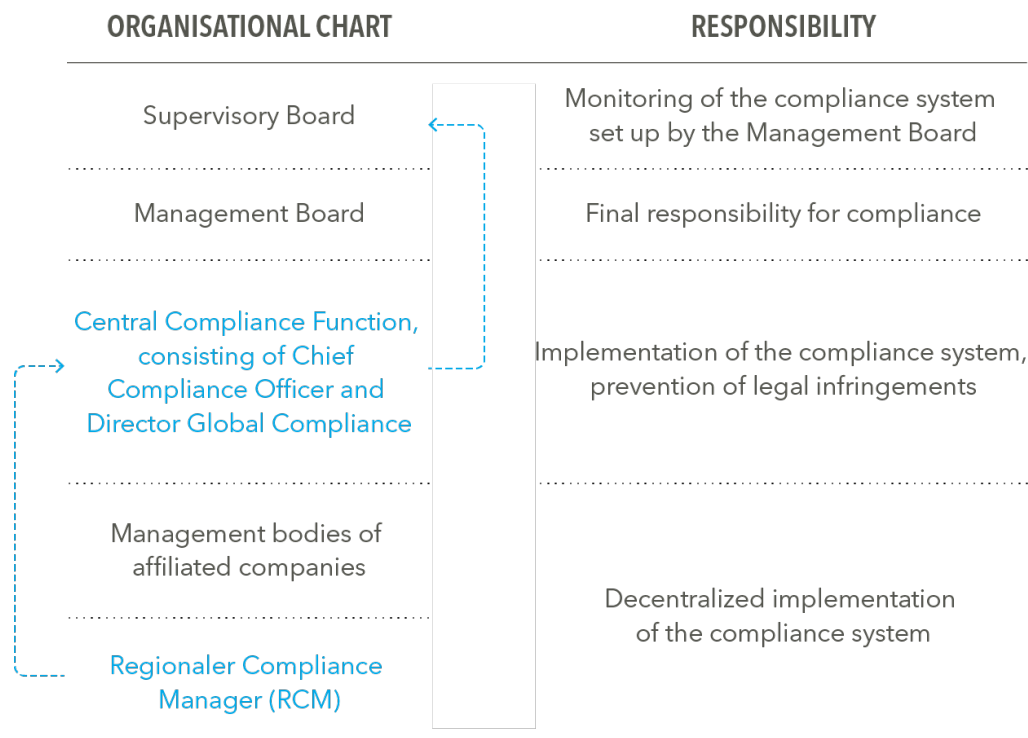
Management approach

The Management Board bears the overall responsibility for compliance and the compliance management system. The Supervisory Board in turn monitors the system set up by the Management Board. Corporate governance and compliance are allocated to the Management Board area of responsibility of Legal/Compliance at KAP and are organised via the Legal & Compliance department at holding company level under the leadership of the Chief Compliance Officer (CCO) and the Director of Global Compliance (collectively: the “central compliance function”). The CCO’s task is to strengthen compliance in the Group and promote and monitor compliance activities. In line with the

compliance management guidelines, the employees responsible in the segments report regularly on progress and incidents. The CCO informs the Management Board of current developments at a regular weekly meeting and on an ad hoc basis. Reports are also regularly given to the Supervisory Board and the audit committee on status and progress.

The central compliance function is supported by regional compliance managers (RCMs) in the segments and segment companies. Moreover, there is close cooperation and coordination between the key central interfaces such as employee representatives, Finance & Controlling and Risk Management.

Since 2021, there have been monthly discussions between the central compliance function and the RCMs. This should improve mutual knowledge transfer and communication between the segments.



The topic of data protection is organised separately. KAP AG and its segment companies have appointed an external Group Data Protection Officer responsible for monitoring compliance with the relevant data protection laws. We react to potential breaches of data privacy through our incident management procedure: in suspected cases, the Data Protection Officer is involved immediately and instructs the Compliance department and Management Board as to the nature of the breach. The current situation is presented regularly in the form of a monthly management summary. The point of contact in the segments and companies is the respective management level and IT administration. We always apply the European Union's General Data Protection Regulation (GDPR) throughout the Group, including in countries and companies outside of the EU.

Progress in the areas of compliance and data protection are measured and audited using the following KPIs:

- Coverage of sites by the compliance management system (CMS) (2021: 100 % of all sites)
- Proportion of employees who have been trained on compliance topics
- Penetration test results in comparison with previous years

Compliance management system

All measures in the area of compliance are organised through our compliance management system, which we continuously expand to new companies. The CMS 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" takes place through, for example, compliance checks or our internal whistleblower system. Finally, "React" includes the internal and external crisis communication strategy and the remedying of known weak points.

We aim to expand compliance management and communication with the segments even further. In the past year, we

already implemented the following measures: all current compliance policies were made available to employees using the policy manager system, certain Group companies and groups of people were trained as the need arose and, as already stated, monthly discussions were held between the central compliance function and the RCMs.

For 2022, KAP also plans to introduce a regular reporting format for reports from the RCMs to the central compliance function. This improved communication with the segment companies ensures the implementation of the CMS. Documentation and instructions can also be prepared with the CMS so that individual companies can better learn from each other.

Compliance policies

In addition to our Code of Conduct, various policies also play a major role in day-to-day business. These include specific codes of conduct for the avoidance and disclosure of conflicts of interest, for offering and accepting benefits, gifts and invitations, as well as for the arrangement of political and charitable donations or sponsorship. The policies cover the following topics:

- Anti-corruption
- Anti-trust and competition law
- Data privacy
- Export control
- How to deal with business partners
- Compliance management
- Gifts and invitations
- Trade sanctions
- Data privacy

The policies applied to all segments from entry into force. As long as there is compliance with all the policies, the segments can make the policies more specific.

In 2022, we plan to evaluate various policies. In addition to the existing compliance policies, the instructions regarding sustainability are also to be expanded. From next year, policies on the environment, human rights, diversity and general sustainability are therefore to be reviewed and adopted one by one, as required. More details on the topic of human rights can be found in the seventh chapter "Supply chain".

Training employees

To communicate the importance of compliance, ethics and integrity for a lastingly successful corporate culture, we have set the strategic objective of expanding the compliance training sessions in a target-group-specific way. One of the ongoing measures is regularly training all employees.

In addition, we have decided to tailor the training more precisely according to needs and for specific target groups. In the fourth quarter of 2021, such training for target groups such as sales staff was held on the topics of anti-corruption and anti-trust law. The training sessions are offered as workshops, web-based modules and video content in the relevant national language. Participation in this training is mandatory for our employees and is checked.

Its effectiveness is regularly tested using e-learning software. KAP currently has training on the following compliance topics:

- Compliance basics
- Protection against corruption
- Fair competition
- Information security
- Data privacy
- Export responsibility
- Capital market compliance

The management teams of the KAP Group companies are trained separately on relevant topics through face-to-face training. In the strategy programme, we have adopted the measure of expanding such face-to-face training on a risk-group-specific basis in 2022.

The KAP whistleblower system

We use an anonymised electronic whistleblower system to learn of misconduct. The system has been continuously

expanded since its formal introduction in 2017. It offers all employees and third parties the opportunity to contact the Compliance department via KAP AG's website in accordance with the recommendations set forth in the German Corporate Governance Code. The system is operated by a Germany-based third-party provider and in compliance with the highest IT and data security standards. The cases reported were recorded and processed accordingly in 2020 and 2021. Beyond this, there were no pending legal actions for anti-competitive behaviour or anti-trust or monopoly practices in 2021.

The whistleblower system is an important instrument of compliance management at KAP. We have therefore set ourselves the target within the KAP ESG strategy of expanding it and regularly analysing risks. The measures include an annual risk analysis to assess the quality of our compliance organisation. It is carried out within the framework of the general risk analysis ("Opture").

As of March 2022, a switch was made to an external ombudsperson to enable whistleblowers to get in touch with a direct contact (in addition to communicating digitally with the ombudsperson). In addition, a Management Board letter was sent to all employees to promote the whistleblower system and provide information on the specifics of using the system. This means every whistleblower should be able to better assess whether a relevant compliance case exists. The expansion of the whistleblower system will also be pursued in 2022 by introducing regular reporting by the sites, which should make monitoring easier.

Ensuring regular compliance audits

The expansion of the whistleblower system means the expansion of compliance audits and monitoring measures also makes sense. We safeguard the proper functioning of our overall concept for avoiding corruption and bribery through internal and, where appropriate, external audits in individual risk-relevant cases. We also set this as an objective in our KAP ESG Strategy 2025.

The internal audit is carried out on an ongoing basis, supported by compliance audits. Internal investigations are carried out depending on suspicions. In 2020, a comprehensive compliance risk analysis was performed across the Group with the support of an international law firm. A total of 23 business premises were audited for corruption risks. In 2021, four companies were audited for compliance issues as part of the audit performed across the Group. In 2022, we plan to implement further resulting measures in the Group companies.

Data protection and information security

We have also set a strategic objective in the area of data protection and link this with concrete measures. To achieve the objective of further improving data protection and information security and regularly putting these to the test, three measures are planned for 2022.

Regular training on data protection and information security plays a special role. We regularly familiarise our employees with information security and data privacy requirements via web-based training. We test the knowledge acquired using the already active measure of the penetration tests conducted. From 2022, we also want to introduce active penetration tests in the form of phishing and vulnerability checks, where the users are not aware that they are taking part in a test, as a measure. We want to put training and protection systems to the test like this. The challenging work on data protection and information security through increasing use of cloud technologies is continuously supported by data protection management.

But breaches may still occur despite good training and systems. In the event of a reportable breach, the Group Data Protection Officer must report the breach to the data protection authorities. The KAP Group was not made aware of any breaches of data protection regulations or data losses during the 2021 reporting year.

EMPLOYEES

Creating an attractive and safe working environment

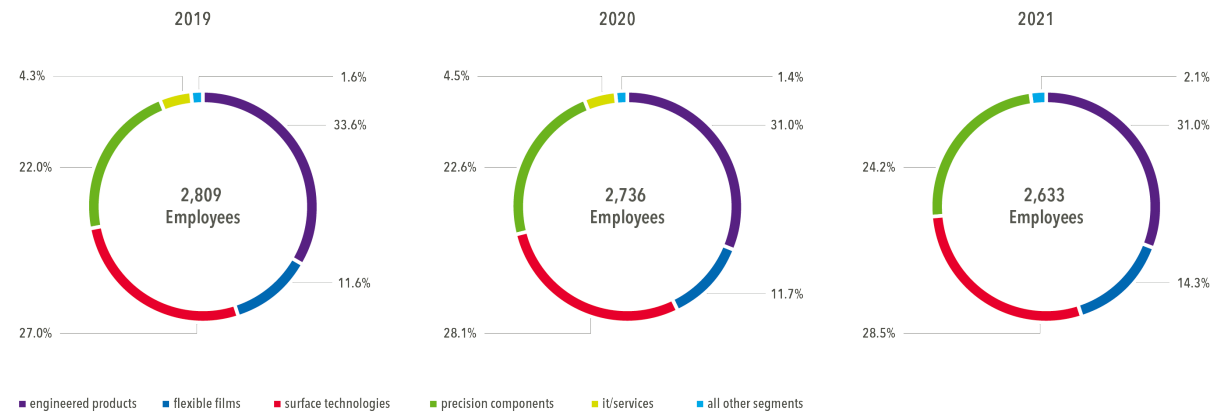
Our employees are our most valuable resource. Their expertise, motivation and engagement make it possible for KAP to continue to be successful on the market and to continue to grow. Our corporate culture focuses on people and the equal opportunity for development and fulfilment of their potential in a working environment that promotes good health. The employees topic area includes the three material topics of "Working conditions", "Training and continuing education" and "Healthcare and occupational health and safety".

WORKING CONDITIONS

GRI 102-41, 103-2, 103-3, 401-1, 405-1, 406-1

The world of work is becoming increasingly connected, fast-paced and complex. Since the start of the coronavirus pandemic, these developments have accelerated yet further. We need to counter these developments together with our 2,633 employees worldwide (in headcounts; previous year: 2,736 employees). We are supported in this by 220 temporary workers. Approximately two thirds of our employees are blue-collar workers and one third are white-collar employees.

Employees by segment¹



Despite the lightning-fast advancement of digitalisation, flexible working hours and working from home, manufacturing facilities and the office remain key components in the working lives of our employees. Both in the workplace and in the home office, we want always to offer our employees an attractive and modern working environment. A high level of loyalty from employees means we are able to retain and constantly advance knowledge in the Group. In this way, we create the conditions for employees to be able to take on constantly changing tasks with enthusiasm and dedication, find new solutions and successfully implement them.

Good working conditions at KAP and in the segments are a correspondingly important part of our KAP ESG Strategy 2025. We have set two objectives to further improve working conditions in our Group:

1. Increasing KAP's attractiveness as an employer
2. Promoting diversity at KAP

Management approach

The material topic of "working conditions" is primarily managed by the human resources departments (HR). Accordingly, the Group HR department bears the main responsibility. It carries out central management tasks, develops HR work concepts and represents the topic in the ESG Committee. There is also regular and direct reporting to the Management Board beyond the committee, which meets several times each year.

Success in the area of working conditions is measured using KAP AG's staff turnover rate (2021: 14.6). New entries increased by 38.0 % year on year to 396 people. Almost a third of the new employees were women. Measured by age, 37.4 % of the new hires were under the age of 30, 44.7 % were between 30 and 50, and 17.9 % were over 50. The number of employees leaving fell by 14.1 % to 385 people. In 2021, 46.5 % of the departures were through resignation.

Fluctuation ¹	2020	2021	Change (in %)
Entries	287	396	38.0
Departures	448	385	-14.1
Turnover rate ²	16.4	14.6	-10.7

¹ In headcounts.

² Calculation according to Schlüter formula, previous year recalculated.

At KAP, a decentralised approach to operational human resources work prevails. Many concrete decisions are made at segment, company or site level. Human resources managers, with whom constant communication takes place, are appointed in each segment. There is also an annual HR meeting.

The HR work and strategy is implemented by the segments' HR managers and other managers at company level. They are supported by a range of policies, operating procedures and company agreements. Individual representatives of the segments or companies participate in the ESG Committee in an advisory capacity on specific topics as appropriate. For the topic of diversity, a separate responsibility has been created at Group level. Representatives of people with serious disabilities have already taken responsibility for the topic of inclusion in some plants.

Good work at KAP

As an employer, it is our responsibility to our workforce to ensure fair, transparent and good working conditions. We achieve this by means of a wide range of measures that we are implementing alongside our strategic objectives. This affects our German, but of course also our international sites.

We want to support our strategic objective of increasing KAP's attractiveness as an employer from 2022 by making office-based jobs more flexible. Where possible, working from home and virtual meetings should also be part of working at KAP after the end of the coronavirus pandemic. In 2021, we defined the conditions for working from home in concrete terms in some segments.

To understand our employees' satisfaction, we need to measure it. Employee surveys are already being conducted in individual segments. We want to standardise these surveys and conduct them in all the segments by the end of 2023. This will mean the results can be consolidated at Group level to inform our HR work.

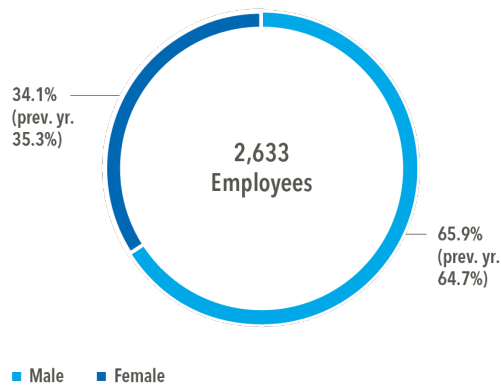
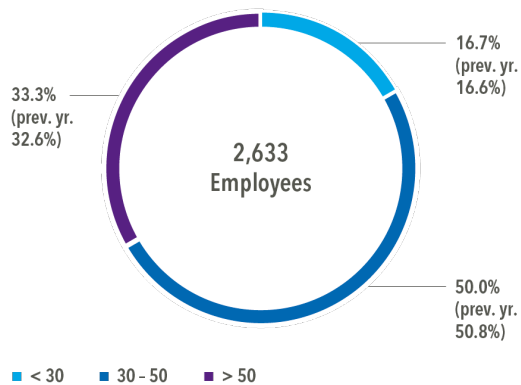
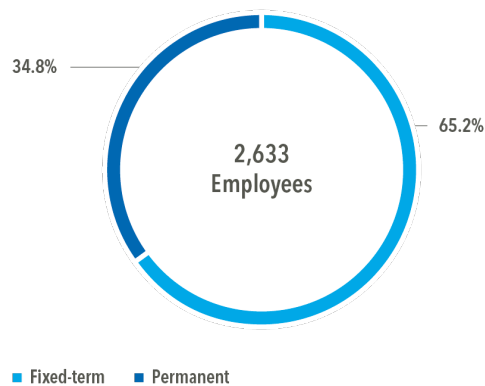
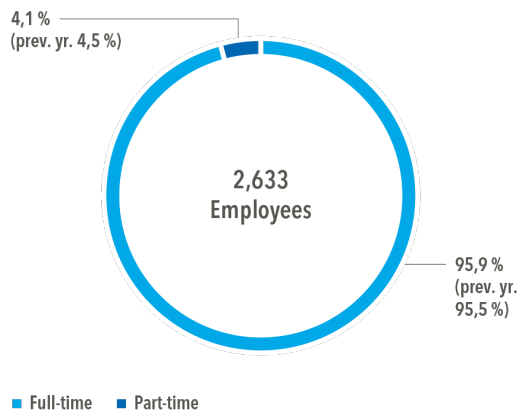
To provide a healthy work/life balance, we go beyond the statutory regulations on working hours and offer many of our employees flexitime models and the option of mobile working. Work-life balance is also to be reviewed and promoted at the individual sites on an ongoing basis. If the employee has to look after a child or care for a relative, other working arrangements such as part-time employment can be considered in an uncomplicated and flexible way to enable more flexibility. Many companies subsidise kindergarten places to support families with young children.

Diversity, equal opportunities and co-determination

Fair and equal cooperation is important for good working conditions. Equal opportunities with equal conditions are a given at KAP. Our strategic aim of promoting diversity at KAP is to be implemented with dedicated management. During 2022, we therefore want to appoint a person to become the diversity officer at holding company level. In the difficult environment of production and technology, we thus want to intentionally promote a diverse business, for example through job advertisements that are clearly geared towards diversity.

At KAP, everyone is treated equally regardless of ethnic or social background, gender, skin colour, religion, sexual orientation, disability or age. In 2021, no complaints about discrimination were reported. As a result, there were also no cases of discrimination that resulted in measures being taken in the reporting year.

KAP is a diverse group. In Germany alone, we employed people from 38 different countries in 2021. 45.5 % of employees are employed in Germany. This is followed by Hungary with 11.0 %, Portugal with 10.3 %, Belarus with 7.6 % and the Czech Republic with 5.1 %. The regions of China, India, the Netherlands, Poland, the USA and Sweden each account for less than 5 % of employees. The proportion of female managers at KAP is 29.4 %. This is slightly below the proportion of women in the total workforce, which is 34.1 %.

Number of employees by gender¹Number of employees by age¹Fixed-term and permanent employees^{1,2}Number of employees by full-time and part-time¹

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

² Group-wide data was available in the previous year for employees with fixed-term and permanent contracts.

Good working conditions also depend on fair pay and the opportunity for co-determination. KAP thus 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. A majority of the part-time employees are female at KAP as well (2021: 75 % of all part-time employees). The amount of remuneration is partially based on binding collective bargaining agreements and individual agreements on bonuses.

We also attach great importance to employee participation and co-determination. There are employee representatives in many of our companies. There are union representatives in other companies. Most of the companies in the KAP Group have established statutory protection against wrongful dismissal.

TRAINING AND CONTINUING EDUCATION

GRI 103-2, 103-3, 404-1, 404-2, 404-3

The material topic of "training and continuing education" is both particularly important and a particular challenge which we are meeting in a focused way. In some countries, including in Germany, recruitment is difficult as a result of demographic development, global competition and skills shortages.

We tackle this challenge - as described in the previous chapter - with good working conditions to retain a high level of employee loyalty and thus retain knowledge in the Group. In addition to that, we focus on the systematic training and continuing education of our employees.

As part of our ESG Strategy 2025, we developed three objectives in the area of training and continuing education:

1. Expand HR development measures and improve monitoring
2. Recruit at least 20 % of the managers from our own ranks
3. Expand the number of trainees and, where possible, take on 100 % of the trainees and students on dual study courses

Management approach

The management structure in the area of training and continuing education is similar to that in the area of working conditions: The Human Resources department strategically manages the topic at Group level in close consultation with the Management Board and the ESG Committee. The operational human resources work – i.e. the recruitment of trainees, the initial training programmes and the promotion of continuing training – is carried out by human resources managers at segment and company level.

Progress in training and continuing education is measured by several KPIs that reflect the facets of the topic:

- Average hours of continuing training per employee (2021: 19.1 hours)
- Proportion of managers from our own ranks (2021: 39.9 %)

Monitoring and HR development measures

With strategy, objectives and management structures, we ensure that talents are discovered, supported and challenged. 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.

Good management structures and a reliable database are the basis of a successful strategy. We therefore want to improve our monitoring in the area of training and continuing education and to expand HR development measures in our KAP ESG Strategy 2025 as a foundation of the further objectives.

To this end, we want to fully record the hours of continuing training at our largest sites at the start of 2022 and increase this on an ongoing basis. It is in our own interests that staff can continue to pursue their career development with us and expand their own knowledge and qualifications on an individual basis and largely free of charge. There were therefore approximately 19 hours of continuing education per employee at KAP in 2021.

We use the annual feedback meetings to guide and shape our employees' development. Feedback meetings were held with 52.1 % of employees in 2021. The data could only be securely collected for 88.7 % of the total workforce. During annual employee reviews and individual target setting meetings, development potential, goals and training options are all discussed. Employees can choose from a range of training options, extending from internal training and workshops, specialist seminars, certification courses, training as a technician or master craftsperson to language courses. In doing so, we rely on internal and external speakers and training institutes. Employees started 22 training courses to become a technician or master craftsperson across KAP in 2021. Of such training courses, 30 were already in progress.

Structures have also been established for the self-motivated training of our staff, such as in the form of (partial) assumption of costs, which are granted by KAP once the relevant requirements are met. Many training options are not just supported financially, employees can also make use of working hours for the training.

Managers

Good managers are essential for the smooth-running of a business. We recruit our young managers from professional academies or universities, relying on close cooperation, often over the course of many years. But we also rely on identifying and promoting young specialists and managers and on succession planning for key positions from our own ranks. This is a key focus for KAP's HR development strategy.

By the end of the ESG strategy in 2025, we want to be recruiting at least 20 % of new managers from our own ranks.

Currently, 65 of the 163 managers were previously regular employees or trainees at KAP. This means that 39.9 % of the Group's managers were developed internally. Almost 150 people participated in the various mentoring and development programmes at KAP in 2021.

Training more trainees

We are pursuing our strategic aim of training more trainees and taking as many of them on as possible by offering traineeships at more sites in future. Trainees can currently choose from 14 vocations and three dual courses of study at our German sites.

Vocational training is available at many of the companies in the KAP Group. The vocations cover commercial, technical and process-based areas. We also offer traineeships in IT and electrical engineering.

HEALTHCARE AND OCCUPATIONAL HEALTH AND SAFETY

GRI 103-2, 103-3, 403-1, 403-2, 403-3, 403-5, 403-6, 403-7, 403-8, 403-9, 403-10

Physical safety and safe working conditions for our staff are paramount for us. The ESG Strategy 2025 should maintain and improve our good position in occupational health and safety in the next few years. We have set two objectives for this:

1. Promote health and ergonomics at KAP
2. Promote occupational safety

Management approach

We pursue a Group-wide approach to healthcare and occupational health and safety, which is currently managed and implemented locally in the segments and subsidiaries. In future, strategic questions on employee health and safety are also to be discussed by our newly created ESG Committee. In addition, during 2022 we will create a steering committee that will devote itself to operational questions, shared approaches and pursuing objectives. The steering committee will be headed by a yet to be appointed Group manager.

Occupational health and safety officers, safety officers and hazardous substance officers have already been appointed in the segments or at the sites. They organise training, carry out inspections and checks where necessary and implement the management systems.

We promote health and safety through health management and compliance with health and safety guidelines, which are based on legal requirements and the specific regulations in place at our individual subsidiaries. We observe all relevant legal requirements at a municipal, national and international level. During the coronavirus pandemic, we were able to demonstrate that our management system works: all the segments developed and implemented very detailed hygiene concepts. The holding company provided advice and support for this. As a result, there were only a small number of business disruptions due to the coronavirus pandemic in 2021.

Successes in implementing our KAP ESG Strategy 2025 are measured by KPIs including:

- Coverage of sites by the occupational safety management system (2021: 57.1 %)
- Coverage of sites by the certified occupational safety management system (2021: 14.3 %)
- Number of work-related accidents (2021: 73)

Occupational safety and management systems

Potential risk situations that may occur in the KAP companies and that must be avoided include accidents involving machinery or in connection with internal transport and accidents involving hazardous substances. To eliminate such risk situations, we have set the objective of promoting occupational safety at KAP as part of the ESG Strategy 2025. This is to be achieved in 2022 primarily through an expansion of management. Firstly, we want to appoint a Group officer for occupational safety and establish a central structure in the form of an occupational safety steering committee.

Secondly, we want to promote and expand coverage by occupational health and safety management systems at the sites. Such a management system is currently in place at 57.1 % of the sites for which data was collected. In 2022, we also want to begin the segment-wide implementation of ISO 45001 (occupational health and safety management) at all relevant sites in the first segment – **flexible films**. For 2023, the plan is to implement it in the **engineered products** segment. Currently, only 14.3 % of KAP's sites are covered by ISO 45001 certification.

Our safety and hazardous substances officers conduct safety checks and in some cases safety audits at regular intervals within the companies within the framework of the management systems. Depending on the company, these checks are carried out continuously either on a weekly, monthly, quarterly or annual basis. We are currently working on appointing safety officers at all of our sites.

The companies also keep accident statistics and document accident figures in a targeted way. All reportable workplace accidents within the KAP Group are centrally recorded and evaluated in our reporting system. We recorded 73 (previous year: 117) reportable work-related accidents in 2021, which corresponds to a rate of 3.7 (previous year: 6.3) accidents per 200,000 working hours. We were able to reduce the accident rate by 41.4 %.

In addition, workplace accidents with serious consequences and work-related (minor) injuries were recorded Group-wide for the first time in the reporting year: there were 7 cases of workplace accidents with serious consequences and 119 cases of work-related (minor) injuries in 2021. As in the previous year, there were no fatal work-related accidents.

Work-related accidents and illnesses	2020			2021		
	Work-related accidents	Work-related illnesses	Accident rate ¹	Work-related accidents	Work-related illnesses	Accident rate ¹
Total	117	35	6.3	73	22	3.7
engineered products	19	5	3.2	11	1	1.5
flexible films	26	13	11.3	21	17	6.2
surface technologies	23	14	4.7	9	0	3.5
precision components	49	3	11.1	32	4	4.8

¹ Accidents per 200,000 hours worked.

Training

Checks are just one step. A comprehensive understanding of occupational safety in the workforce is also needed. Training is therefore an important field for promoting occupational health and safety.

Occupational 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 safety briefings that are documented in writing.

With the KAP ESG Strategy 2025, we have set ourselves the goal for next year of expanding digital training in this area by centrally organising and regularly conducting it. Continuously promoting workplace briefings and ergonomics allows additional accidents and health problems to be prevented.

Ergonomics and maintaining health

We are implementing our strategic objective of promoting health and ergonomics at KAP in 2022 through a range of measures, some of which are already in place. These include setting up workplaces in line with ergonomic criteria and setting up comfortable work stations but also promoting sport or offering workplace vaccinations. Where necessary, we hold meetings with our staff when they return after taking sick leave as part of our programme to reintegrate them at work. In special cases, it may be necessary to change to another role within the company to carry out different activities.

Company doctors already offer preventive check-ups at many sites. We want to expand this by the end of 2022. The aim of these preventive check-ups is to examine and maintain health. We are expecting the measure of having machine operators pass hearing and eye tests from the end of 2022 to result in occupational safety benefits. Our companies are also increasingly introducing their own workplace health management strategies and offering measures to promote health. This includes, for example, company sport options and the availability of healthy food at various sites.

In 2020, we decided to introduce health check-ups for managers worldwide. The plan was put into action in 2021. The check-ups are conducted in collaboration with the renowned Helios Prevention Center. As part of implementing the strategy, we want to raise awareness of the check-ups and expand them.

ENVIRONMENT

Protecting the climate and conserving the environment

We believe that taking responsibility for the environment is both an ethical and business imperative, whether it is 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 want to continue to improve our environmental performance across the board and thus make a contribution to a cleaner environment and to combating climate change. The environment topic area comprises three material topics: "Energy and emissions", "Waste and recycling" and "Water". All three topics are fundamentally managed in a similar way.

Management approach

KAP's ESG Committee and the Group's sustainability manager bear the main responsibility for the topics of "energy and emissions", "waste and recycling" and "water". Strategic questions are discussed and decisions are made together in the KAP ESG Committee. These decisions are based on proposals by the Environmental Steering Committee. This steering committee is headed by the Group's sustainability manager and it is additionally staffed by a technical expert from each of the segments. The representatives meet several times a year and consult individual representatives from the segments or sites depending on the topic.

The responsibilities are specified in more detail in the segments: Environment officers or environment representatives are appointed at segment or site level in all the segments. They are responsible for the operational implementation of measures and for monitoring targets.

In many segments, the topic of the environment is firmly structured through management systems. Many of the sites are certified in accordance with ISO 14001 and ISO 50001 management systems: for example, in the **surface technologies** segment, all the sites have ISO 14001 certification. All the German sites here are ISO 50001 certified. The **precision components** segment is largely covered by ISO 50001 certification. By no later than 2025, all companies except for the Belarus location should also be covered by ISO 14001.

Environmental protection in day-to-day business is regulated by policies. For example, the **engineered products** segment has extensive environmental requirements for purchasing and suppliers in the Mehler Specific Requirements and the Supplier Code of Conduct. **precision components** also has procurement criteria, including, for example, energy efficiency. **surface technologies**, by contrast, has a supplier self-assessment, which also surveys the topics of the environment and energy management.

In addition, clear specifications and guidelines are derived from ISO 14001, IATF 16949, ISO 50001 and EcoVadis requirements at all affected sites of the segments. Last but not least, our customers set specifications for product and resource use and packaging.

ENERGY AND EMISSIONS

GRI 103-2, 103-3, 302-1, 302-3, 302-4, 305-1, 305-2, 305-3, 305-4, 305-5

Climate change mitigation is playing an increasingly important role – including at KAP. We constantly strive towards reducing our energy consumption and CO₂ emissions and thus take responsibility for the global climate goals. As part of our ESG Strategy 2025, we have developed three objectives with a broad catalogue of energy and emissions measures behind them:

1. Expanding environmental management and fully recording material energy and emissions data
2. Increasing energy efficiency and reducing energy consumption by 10 % by 2025
3. Avoiding and reducing emissions

These objectives build on each other. We are going to significantly expand our Group-wide management and data collection – you can only manage what you can measure. In parallel with this, we are going to increase our energy efficiency and reduce our energy consumption. The emissions will be reduced through lower energy consumption and through additional saving or avoidance measures.

Management approach

The ESG Committee and the Environmental Steering Committee are responsible for and deal with the topic of "energy and emissions" within the framework of environmental management as described above. Whereas strategic issues are dealt with in the ESG Committee, the operational work in the steering committee is carried out together with the segments. The Group's sustainability manager heads the steering committee and prepares the meetings.

The responsibilities are specified in more detail in the segments: In addition to the environmental officers described, each segment appoints an energy officer or energy management officer at segment level and, in some cases, at site level. In many segments, there are regular meetings and regular reporting on the topic. At the sites, the aforementioned management certifications - ISO 14001, ISO 50001 and IATF 16949 - determine the work.

The steering committee measures progress on the objectives and measures using various KPIs and key figures. In addition to key figures such as CO₂ equivalents and energy consumption, the most important KPIs are:

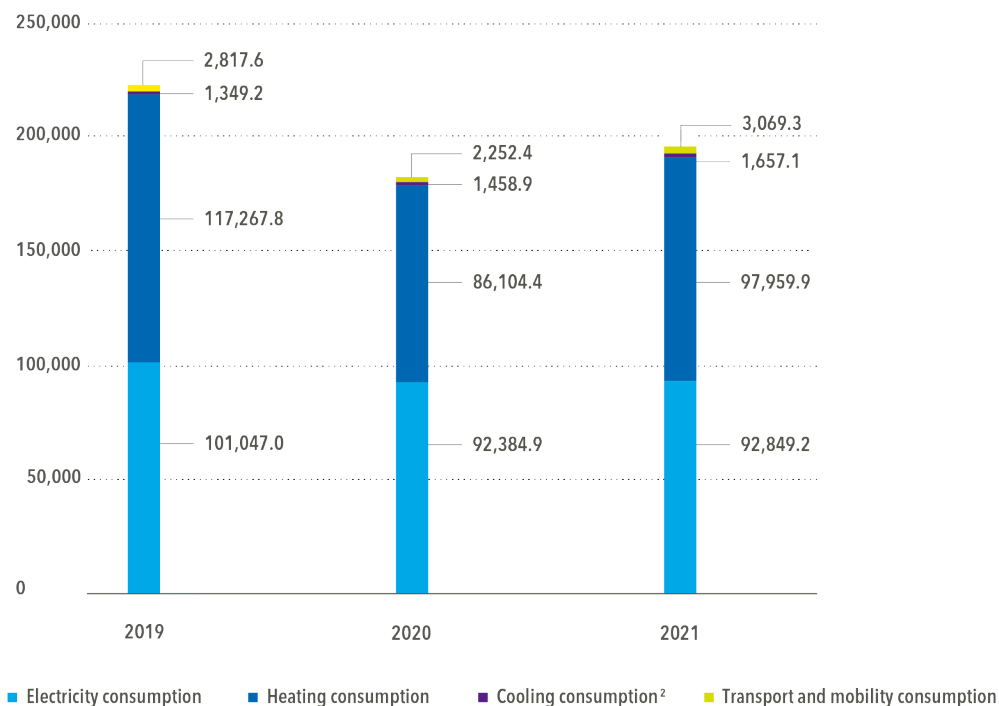
- Coverage of sites with ISO 14001 certification (2021: 71.4 %)
- Coverage of sites with ISO 50001 certification (2021: 53.6 %)
- Megawatt hours of energy consumption per million euros of revenue (2021: 560.0 MWh)
- Tonnes of CO₂ equivalents (CO₂e) per million euros of revenue (2021: 215.6 t CO₂e)
- Megawatt hours of energy consumption per tonne of material use (2021: 4.3 MWh)
- Tonnes of CO₂e per tonne of material use (2021: 1.7 t CO₂e)

Better energy performance

We initiated our objective of expanding management and data collection by setting up the Environmental Steering Committee. The committee will meet for the first time in 2022 and will evaluate current measures and objectives. In addition, necessary definitions of terms are to be established as the basis for further work and joint internal emission reporting by the sites will be established.

The appointment of the sustainability manager, who is primarily responsible for the topic of the environment, also contributes to reaching this objective. The sustainability manager will support these segments and sites in establishing even more comprehensive and uniform data collection for Scope 1 and Scope 2 emissions. Corresponding steps for Scope 3 emissions will be finalised in the following year.

Energy consumption in MWh¹



¹ The it/services segment is no longer included in the totals as of 2021.

² Cooling is generated using electricity at many sites and cannot be estimated proportionately.

Steps were already taken towards our objective of reducing energy consumption in 2021. The 6.4 % year-on-year increase in energy consumption is mainly in the area of heating consumption. The 13.8 % increase in heat use is connected with the coronavirus pandemic: while the pandemic forced our employees to stay at home more often in 2020, this proportion rose in 2021, which goes hand in hand with more heating use at the sites.

Energy consumption categories by source (in MWh)

	2020	2021	Change (in %)
Total energy consumption¹	182,170.6	193,878.4	6.4
Energy consumption per million euros of revenue	537.9	554.5	3.1
Electricity consumption	92,384.9	92,849.2	0.5
From renewable sources	13,293.5	15,566.4	17.1
From non-renewable sources	79,091.3	77,282.8	-2.3
Heating consumption	86,104.3	95,708.4	13.8
From renewable sources	41.9	485.5	1,058.7
From non-renewable sources	86,062.4	95,222.8	13.3
Cooling consumption²	1,459.0	1,657.1	13.6
From renewable sources	549.4	747.0	36.0
From non-renewable sources	909.6	910.1	0.1
Use for transport and mobility	2,222.4	3,069.3	38.1
Thereof Petrol	422.7	1,195.4	182.8
Thereof Diesel	1,471.5	1,413.2	-4.0
Thereof Liquid Gas	328.2	460.7	40.4

¹ Recorded cooling use is generated via electricity and is therefore not included in the 2021 total.

² Cooling is generated using electricity at many sites and cannot be estimated proportionately.

Efficiency in the segments

The **surface technologies** segment, for example, is continuing to press ahead with the previous year's project of switching to LED lighting. In addition, new meters for improving measurement quality are being installed, hot air dryers are being switched to modern vacuum technology, compressors are being reconditioned and the standard air pressure is to be reduced. These and other measures are derived from the energy audits regularly performed in the segment. Improvements are also achieved through training employees in employee training days. Per million euros of revenue, energy consumption was 933.6 MWh.

In **engineered products**, energy efficiency and emissions reduction are always taken into account in new investments as part of the environmental programme. The ongoing conversion to LED and the permanent replacement of old machines with new ones with higher energy efficiency are used to reduce energy consumption. For 2022, we plan to introduce environmental events and a suggestion management programme in support of energy efficiency at individual sites. In 2021, 930.6 MWh of energy was consumed per million euros of revenue.

The **flexible films** segment systematically improved energy use and energy consumption by means of an action plan. Machines, systems and other equipment are already procured on the basis of energy-efficiency criteria. Preventive maintenance measures, optimisation processes and leak management are carried out continuously. Furthermore, we hold staff brainstorming workshops at least once a month on how to further reduce our energy consumption and reward employee ideas for how to reduce energy consumption. In 2022, the segment's focuses will include optimising production processes and sequences, using free coolers or optimising dryer times at individual sites. The **flexible films** segment consumed 151.8 MWh of energy per million euros of revenue.

Precision components annually reviews the strategic environmental programme's progress in a management review and defines new measures. The segment energy guidelines stipulate that not only should the legal requirements regarding energy management be fulfilled but, above and beyond this, our energy efficiency should be continuously improved. The planned production building at our site in Belarus meets all relevant environmental requirements. The whole lighting of the Dresden plant's production facility and the site lighting at Gear Motion Ehingen was further converted to LED in the reporting year – the full conversion was completed in 2022. Bebusch Hungary promotes staff environmental and energy awareness through a monthly information newspaper. Environmental events take place at the sites, and employees who suggest ideas to improve environmental performance as part of the suggestion management programme are rewarded. Energy consumption per million euros of revenue was 324.6 MWh in the segment in 2021.

The Environmental Steering Committee is going to work on the definition and adoption of purchasing criteria for all segments that take energy efficiency into account in 2022.

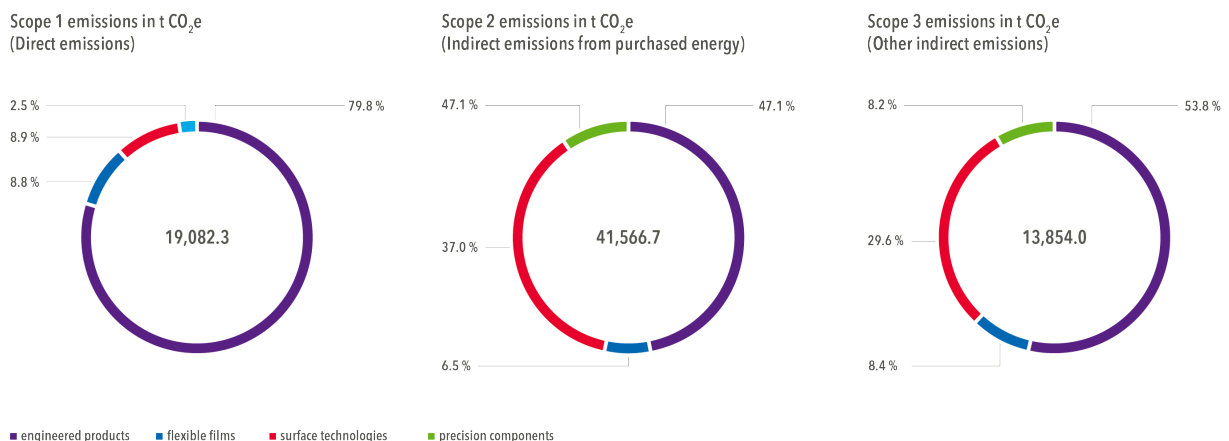
The KAP climate strategy

In addition to energy consumption reduction, we pursue the aim of reducing emissions with a range of measures. For example, a Group policy on the use of green electricity is to be created and adopted as early as 2022. Some sites already switched to electricity from sustainable sources in 2021. These sources produce significantly lower emissions in the generation and supply of electricity.

Emissions are also to be reduced from 2022 through the evaluation and establishment of travel and company-car policies. This is also facilitated by the expansion of local public transport support for our employees, which we undertook as part of our ESG strategy. The current mobility offering includes subsidised public transport season tickets and bicycle leasing in many segments and companies.

In addition, from 2022 our own new buildings will be planned and constructed taking account of sustainability aspects. This includes taking account of corresponding green building certifications such as LEED or WELL Building but also the generation of electricity and heat there.

Emissions in the segments¹



¹ Emissions of the base year 2020 were recalculated due to new emissions categories, more accurate calculation methodology and the sale of the it/services segment. The operational control approach was chosen. To calculate the emissions, DEFRA (United Kingdom Department for Environment, Food & Rural Affairs, 2021) and IEA (International Energy Agency, 2020) CO₂e factors were used, which take account of all the relevant greenhouse gases. Biogenic emissions cannot currently be recorded.

Contribution to climate change mitigation

The segments are implementing numerous further measures to reduce emissions or planning them for 2022. The **surface technologies** segment already not only purchases heating conventionally but also relies on significantly more environmentally friendly district heating from a biogas plant. In Germany, electric and hybrid vehicles are preferred when selecting company vehicles. Separate photovoltaic areas have been installed at some of the sites for environmentally friendly electric refuelling. In total, **surface technologies** produces 367.5 t of CO₂ equivalents (CO₂e) per million euros of revenue.

Recently, **engineered products** decided in favour of a photovoltaic plant at the Hessisch Lichtenau site, which is to be constructed in the next few years. In addition, electric forklifts, which avoid emissions with the existing green electricity procurement, are already in use. 358.1 t CO₂e are generated per million euros of revenue of the segment.

The **flexible films** segment will also focus more on photovoltaics in the future. Electricity purchases are covered by emission-free green electricity. Transport optimisation leads to further savings through efficient planning. This means the segment produced 43.3 t CO₂e per million euros of revenue.

The **precision components** segment moves a great deal in Gear Motion. Preparations are being made for the switch to e-mobility there: the machinery and vehicle fleet is being electrified as far as possible. Currently, 30 % is already electric. To facilitate the use of electric company vehicles, charging stations were installed for the site. To make sure the electricity used for this has the lowest environmental impact possible, a photovoltaic project is already in the concept development stage. The segment generates 142.2 t CO₂e per million euros of revenue. These and further measures by the segments have a significant influence on the KAP Group's greenhouse gas emissions as a whole, which totalled 215.6 t CO₂e per million euros of revenue in 2021.

Emissions by source (in t CO ₂ e) ¹	2020	2021	Change (in %)
Total emissions	77,541.3	74,503.2	-3.9
Emissions per million euros of revenue	228.9	215.6	-5.8
Scope 1 (Direct emissions)	24,045.0	19,082.3	-20.6
From generated electricity	9.6	383.8	3,878.8
From generated heat	23,488.2	17,861.3	-24.0
From generated cooling	248.3	186.5	-24.9
From transport and mobility	383.9	650.7	69.5
Scope 2 (Indirect emissions from purchased energy)	37,944.2	41,566.8	9.5
From purchased electricity (market-based method)	36,153.0	40,003.3	10.7
From purchased electricity (location-based method) ²	31,842.5	35,365.7	11.1
From purchased heating	1,746.2	1,965.3	12.5
From purchased cooling	210.0	1.5	-99.3
Scope 3 (Other indirect emissions)	15,552.1	13,854.0	-10.9
From business travel	41.9	10.4	-75.2
From water use and waste processing within the value chain	1,749.1	1,098.6	-37.2
From fuel- and energy-related activities	13,761.1	12,745.0	-7.4

¹ Emissions of the base year 2020 were recalculated due to new emissions categories, more accurate calculation methodology and the sale of the it/services segment. The operational control approach was chosen. To calculate the emissions, DEFRA (United Kingdom Department for Environment, Food & Rural Affairs, 2021) and IEA (International Energy Agency, 2020) CO₂e factors were used, which take account of all the relevant greenhouse gases. Biogenic emissions cannot currently be recorded.

² Not included in total Scope 2 emissions or total emissions.

In 2021, greenhouse gas emissions amounted to 74,503.2 t of CO₂ equivalents. By contrast to the trend in energy consumption, emissions fell by 3.9 % compared with the base year 2020. The emissions in the KAP segments occur in all three scopes as defined in the Greenhouse Gas (GHG) Protocol. The purchase of electricity and internal heat generation are by far the largest sources of emissions for KAP due to the energy-intensive production processes. This is also reflected in the high Scope 3 emissions in the field of fuel- and energy-related activities. Compared to other companies with the same number of employees, at 10.4 t KAP generates relatively low emissions in connection with business travel. The highest quantity of emissions is caused by the **engineered products** segment, which results from the size of the segment. This is followed by the **surface technologies** segment. The **flexible films** and **precision components** segments combined only cause just under half the emissions of the **surface technologies** segment and less than a quarter of the emissions of the **engineered products** segment. The emission intensity is also significantly

lower in both segments. The year-on-year reduction results from the use of gas instead of heating oil when generating our own heat. This also results in reductions in the area of Scope 3 emissions. Various increases in emissions, for example from our own electricity generation or transport and mobility, are due to an improvement in data collection.

In matters connected with Scope 3 emissions, we endeavour to present as complete a picture as possible of our value creation. We therefore also use estimation factors to measure emissions that arise as a result of water use and waste generation within our value chain. As part of the KAP ESG Strategy 2025, additional sources of Scope 3 emissions will be analysed and measured in 2023. This report therefore also presents emissions from fuel- and energy-related activities for the first time.

The exceptional effect of the coronavirus pandemic is no longer as significant as in the previous year but must also be taken into account when assessing data for the 2021 financial year.

EU taxonomy

In connection with the extension of non-financial disclosure obligations, KAP AG is making disclosures on the implementation of the EU Taxonomy Regulation (Regulation (EU) 2020/852) for the first time for this reporting year. Currently, the EU has published requirements guidelines for sustainable economic activities for two environmental objectives: climate change mitigation and climate change adaptation. The description of the individual economic activities in the two Delegated Acts on the EU Taxonomy Regulation (Annexes I and II) determines which economic activities qualify as taxonomy-eligible in the first year of non-financial reporting. The key figures for taxonomy-eligible economic activities have been calculated taking account of the FAQ document published by the European Commission, which clarifies questions of interpretation regarding Article 8 of the EU Taxonomy Regulation.

The core element is determining the Group-wide taxonomy-eligible proportion of revenue that is generated with products or services associated with economic activities that qualify as environmentally sustainable and the proportion of capital expenditure and proportion of operating expenditure related to assets or processes associated with economic activities that qualify as environmentally sustainable.

KAP's contribution to the European Union's two environmental objectives of "climate change mitigation" and "climate change adaptation" was viewed holistically. The economic activities and the revenue, capital expenditure and operating expenditure generated with them were comprehensively analysed and assessed in terms of which proportions can be classified as taxonomy-eligible. Double counting was avoided by clearly allocating the taxonomy-eligible revenue, capital expenditure and operating expenditure to a single taxonomy-eligible economic activity in each case. The analysis showed that the current scope of the Taxonomy Regulation with a focus on CO₂-intensive industries is only applicable to KAP to a limited extent. The KPIs for the taxonomy-eligible revenue, capital expenditure (CapEx) and operating expenditure (OpEx) for the financial year, which are based on the amounts reported in the consolidated financial statements, are broken down for KAP AG in the following table.

Taxonomy-eligible shares of economic activity (in EUR million)

	2021
Revenues	345,617
Of which taxonomy-eligible	55,797
In %	16.1 %
CapEx	31,597
Of which taxonomy-eligible	5,396
In %	17.1 %
OpEx	62,668
Of which taxonomy-eligible	1,688
In %	2.7 %

WASTE AND RECYCLING

GRI 103-2, 103-3, 306-1, 306-2, 306-3

KAP takes responsibility for the stewardship of natural resources and the careful treatment of waste in the interest of the environment. With a sustainable recycling economy, we make sure that we produce as little waste as possible and that we consider the recyclability of our products right from the product development stage.

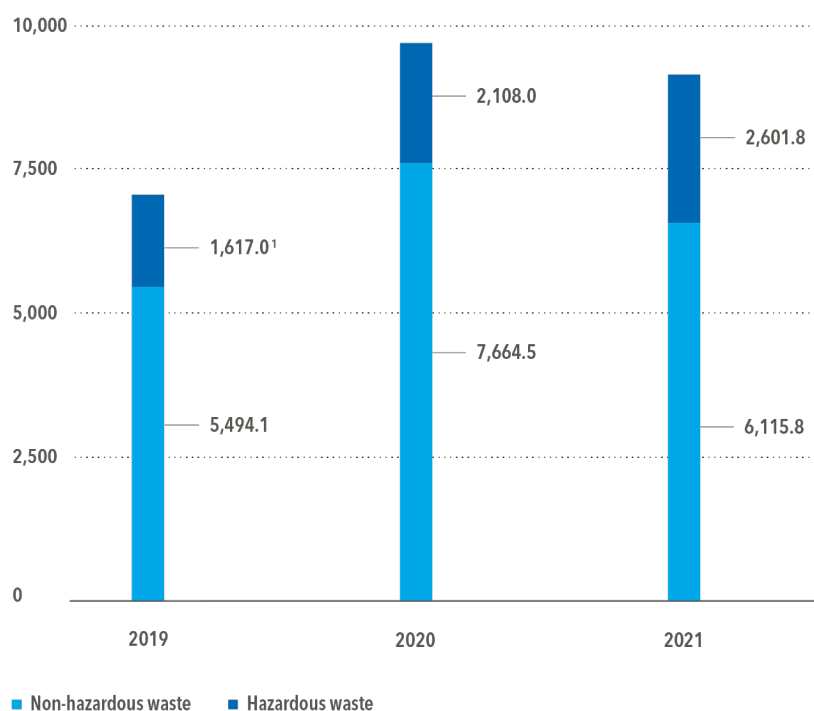
Our waste is treated using a circular system based on the principle of “reduce, reuse, recycle”. Where possible, the waste is sent for recycling or, if it is not recyclable, disposed of correctly. The different KAP segments produce various types and volumes of waste, depending on their production processes. For manufacturing segments like **engineered products**, the principle of reuse, recycling and disposal is applied to waste production materials such as metals and plastics, wood and chemicals, and packaging. At **surface technologies**, by contrast, the waste products are mainly electroplating sludge and coatings.

This means that waste management in the two segments has a different focus and involves different activities. With **flexible films**, for example, one aspect is to reduce the use of oil-based plastics and develop internal recycling plants, whereas in the **surfaces technologies** segment it is vital to take particular care when disposing of hazardous materials. Waste management in all segments is significantly influenced by the individual customers.

In addition to targets for the individual companies and sites, we have also set waste and recycling targets as part of the ESG Strategy 2025.

1. Expand waste management and identify key types of waste
2. Make greater use of recycling at KAP
3. Sustainable use of raw materials and packaging by KAP and its clients

Waste quantity by category (in t)



Management approach

The material topic “Waste and recycling” is also dealt with in the context of environmental management and as described above. The ESG Committee bears the main responsibility, with preparatory and conceptual work carried out at Group level by the environmental steering group and the sustainability manager. At an operational level, the work is performed by the managers responsible in the segments and companies.

Waste officers are appointed by the management teams in all segments. Some companies use waste officers, and in some cases it is the plant manager that is responsible for the respective site. All segments report to the management teams at least annually, and often quarterly or semi-annually.

Many companies operate waste and recycling management systems in line with the ISO 14001 standard. Here, the different guidelines are particularly important. They include legal and waste registers and waste management policies, but also instructions for operations and processes that are often derived from ISO 14001. Regular internal and external ISO 14001 audits take place at many sites.

The steering group and the segments use the following KPIs, among others, to measure their progress:

- Tonnes of waste per EUR 1,000 revenue (2021: 25.2 t)
- Tonnes of waste per tonne of material used (2021: 0.19 t)

Improve waste management

We want to achieve our fundamental aim of expanding waste management and identifying key waste types by means of a Group-wide analysis of the potential for improvements, which is being carried out from 2022 by the environmental steering group. This and other measures, such as strict checks of scrap material at many sites, the deployment of the latest technologies and systems for reusing products, and the optimisation of processes, enable us to continuously reduce the volume of waste. Various segments, including **engineered products**, carry out life cycle analyses (LCA) for customers in order to measure the impact of KAP products. In 2021, a total of 2,186.3 t of waste was produced here, which is a reduction of 25.8 % compared with the previous year.

Waste quantity by category (in t)

	2020 ¹	2021	Change (in %)
Waste total	9,772.5	8,717.6	-10.8
Waste per million euros of revenue	28.9	25.2	-12.6
Non-hazardous waste	7,664.5	6,115.8	-20.2
Thereof reused material	104.6	926.6	785.9
Thereof which recycling	3,407.3	2,611.9	-23.3
Thereof thermal recovery	1,295.0	1,572.7	21.4
Thereof composting	3.5	0.0	-100.0
Thereof landfill	2,690.2	883.0	-67.2
Thereof miscellaneous	133.0	121.6	-8.6
Hazardous waste	2,108.0	2,601.8	23.4
Thereof reused material	671.9	580.3	-13.6
Thereof which recycling	250.6	608.9	143.0
Thereof thermal recovery	482.0	465.3	-3.5
Thereof composting	1.0	0.0	-100.0
Thereof landfill	461.8	935.9	102.7
Thereof miscellaneous	238.4	11.4	-95.2

¹ Includes the low waste volumes of the it/services segment sold.

Waste management also includes the specific waste treatment, particularly for hazardous substances. For this reason we have defined one activity as ensuring that hazardous waste is fully disposed of by certified waste disposal partners on an ongoing basis. This requires that waste products are clearly divided into individual categories and collected separately. Waste has to be stored correctly until it is removed for disposal. This already takes place in almost all segments.

Reduction and recycling

One way of not having to treat hazardous waste is not to produce it in the first place. The **surface technologies** segment already achieves this by means of substitution, as described in the chapter "Product responsibility". The segment reported 3,351.4 t of waste in 2021 and so was able to reduce its volume of waste by 13.8 % year on year. A total of 58.2 t of waste was produced in the segment per million euros of revenue in 2021.

We achieve our aim of expanding recycling at KAP by sensitising and training our employees and encouraging their sense of responsibility. In 2023, we intend to construct and use our own recycling facilities, in order to make an active contribution in this area. This is already the case at **flexible films**, which operates a recycling plant in the company Riflex Film, at the companies AerO Coated Fabrics, CaPlast and Elbtal Plastics, which make use of external recycling providers, and at Steinweg Kunstfolien, which reuses a large proportion of its waste in its own closed-loop system. Progress was again made in 2021 towards the segment target of reducing the volume of packaging by 25 % by the year 2025. The segment reported a total of 2,752.2 t of waste in 2021. The year-on-year increase of 51.4 % is due to a broader assessment base for the data. The segment produces 21.4 t of waste per million euros of revenue.

The **precision components** segment has also set its own internal waste management targets: Waste volumes are to be cut by 2 % per year overall, the collection and separation of waste will be made more effective, and an annual recycling quota of more than 90 % will be achieved. Gear Motion in Ehingen already achieved this recycling quota in 2020. We are planning to reach the target for the Bebusch Hungary site in 2022. This is reflected in the significant year-on-year reduction of 60.6 %, bringing the total volume of waste to 427.7 t. The segment only produces 11.0 t of waste per million euros of revenue.

The third strategic target for "waste and recycling" defines the sustainable use of raw materials and packaging by KAP and its clients. Four activities are intended to contribute to this. Firstly, from 2022 onwards, we will prefer reusable or recyclable packaging wherever it is possible and makes sense. One good example is **engineered products**: reusable packaging is already in use at its site in Hessisch-Lichtenau. Recyclable packaging materials will be reviewed in 2022. Our aim is to feed as much waste as possible back into our material cycle and so increase our recycling quota. The **engineered products** segment generates 18.5 t of waste per million euros of revenue.

Secondly, we regularly recommend reusable and recyclable packaging in discussions with customers. This is already the case at **flexible films**. With some customers, we have agreed that the waste materials resulting from their individual process will be taken back. The materials returned are then processed and prepared in our own recycling facilities, before being fed into the production process again.

Thirdly, we organise digital training modules on waste avoidance on a centralised basis, which are then carried out regularly in the segments. This is in addition to the existing specific training courses offered by the waste officers at the sites.

Fourthly, we also sensitise employees to waste reduction outside the training sessions. In production particularly, there is already an awareness of the need to reduce and separate waste into categories.

WATER

GRI 103-2, 103-3, 303-1, 303-2, 303-3, 303-4, 303-5

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. The topic is extremely important for the **surface technologies** segment in particular, because all its value-added processes are very water-intensive. The segment consumed 94,448 cubic metres of water in 2021, representing some 80 % of all the water used by the KAP segments. In the other segments, water is mainly used for everyday purposes or in closed cooling circuits where it is reused. Only **engineered products** has significant water consumption otherwise, at 22,966 cubic metres.

As part of the KAP ESG Strategy 2025 we have set a target for the "Water" area of reducing specific water consumption in production processes. We successfully achieved this goal in 2021. Water consumption was reduced by 39.0 % to 117,446 cubic metres. This is down to the **engineering products** and **surface technologies** segments.

Management approach

"Water" is a material topic in the environmental action area, just like "Energy and emissions" and "Waste and recycling", and is covered by general environmental management. The ESG Committee, the sustainability manager and the environmental steering committee all play an equal role. As far as the management of water is concerned, operational responsibility is at the segment and company level. The **surface technologies** segment, which is particularly concerned, has appointed a waste water officer, who is jointly responsible along with the environmental officer. They report directly to the segment management team. The company Gear Motion in the **precision components** segment has a water protection officer.

Internal policies at many KAP sites define how water and waste water are to be handled. In terms of water management, these policies are also informed by ISO 14001, for which many companies are certified.

Progress is measured and tracked by means of two KPIs:

1. Year-on-year reduction in water consumption (2021: -39.0 %)
2. Water consumption in cubic metres per 1,000 euros of revenue (2021: 339.8 m³)

Reduce water consumption

We want to address our goal of reducing water consumption in production processes by means of two activities in 2022. Firstly, we intend to expand the amount of data we record so we can gain a better understanding of the effects. To do so, we will track all material consumption by source.

To achieve concrete reductions at the relevant sites, the aim is to draw up a catalogue of measures, such as the use of closed-circuit water systems, water recovery, repeat use of water and the deployment of ion exchangers. This addresses the subject of water reduction from two directions:

one is to reduce water consumption, i.e. to take and use less mains water. In the **surfaces technologies** segment, for example, rain water is collected in tanks and used for general purposes to reduce the use of drinking water. Some companies are also examining whether other liquids can be substituted for water. Closed-loop water systems and cascade rinsing systems are also used. In many segments, the employees are also being made aware of the subject – by means of general environmental training, for instance, an environmental newsletter and qualification days.

But we also want to reduce water consumption ourselves by polluting less water and reducing the amount that seeps into the ground or evaporates. Our intention is rather to purify it ourselves so that we can reuse it or feed it back into the system. The companies are already taking the corresponding action to reduce water loss. Measures include periodic preventive maintenance, visual checks of pipes after every shift, and external inspections to ensure that there is no pollution or leaks.

Water use by category (in m ³)	2020 ¹	2021	Veränderung (in %)
Water withdrawal	319,972	254,088	-20.6
Water discharge	127,506	136,642	7.2
Water consumption	192,466	117,446	-39.0

¹ Includes the low water use volumes of the it/services segment sold.

In the **surface technologies** segment, the main priority is to avoid polluting the water. Here, the use of rinsing water plays a major role – after every active bath in a surface treatment, the product has to be rinsed intensively, which causes the water to become polluted. Via modern rinsing technologies based on high-performance ion exchange units, we are able to ensure minimum water consumption and optimum recycling of rinsing water. We also treat our waste water before feeding it back into the municipal waste water system. The production plants in the **surface technologies** segment also use closed-circuit and other water treatment systems. 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. The water purification and recycling systems in the segment reflect the state of the art and are inspected regularly. We invested in the improvement of the osmosis plant for the internal water supply in 2020. More automatic dosing was introduced in 2021 to extend the service life of the baths used.

PRODUCTS

Offering innovative, high-quality products and processes

The success or failure of our business depends on the quality, safety and sustainability of our products, services and processes. It is only when these values are put into practice in the segments that KAP can ensure its continued long-term existence.

Our materiality analysis in the "Products" action area identified "Product responsibility" as a material topic.

PRODUCT RESPONSIBILITY

GRI 103-2, 103-3

Safety, quality and environmentally friendliness in the processing and use of our products are very important to us and our customers. As such, it is vital for us to fulfil the highest quality standards in order to be a reliable partner. We want to set standards in the fields in which our segments are active. But we don't just take responsibility through the quality of our products and technological solutions, but also through their environmental credentials. With our portfolio, we want to do our bit to make business more sustainable. In cooperation with our customers, we make increasing use of energy-efficient products, services and processes. We work closely with our customers in all matters relating to our products. It is their requirements that have a decisive influence on product development, quality and sustainability.

The four segments in KAP AG are set up very differently. For a detailed description of the different areas of operations, please see the introductory chapter, "About KAP", and pages 9-12 of the Annual Report.

The plethora of different products, services and processes is devised and implemented in the segments and companies. In addition to targets for the individual companies and sites, we have also set product responsibility targets as part of the ESG Strategy 2025.

1. Assure quality management process
2. Continuously improve product and process safety
3. Improve energy-efficiency and environmental impact of products and manufacturing processes

Management approach

Staying innovative and always setting the highest standards in terms of quality and safety are the basis of our long-term commercial success. So the management teams in our segments are primarily responsible for the cutting-edge quality, sustainability and safety of our products, processes and services.

Beyond this, the structures are different. In the **engineered products** segment, there is a Product Safety & Conformity Representative (PSCRs) in addition to the CEOs responsible for the segment.

At **surface technologies**, a PSCR is also defined for the segment, along with others in all the companies that receive products directly from OEM (first-tier suppliers).

In the **flexible films** segment, the Head of Business Development is responsible. In addition, there are representatives at the company level here and in the **precision components** segment.

In all segments, the product managers or the specific project managers are responsible for operational quality assurance, ensuring safety, innovation and sustainability, and meeting other specific customer requirements.

Work in the segments is also organised by means of structures, policies and goals defined in various management systems. Some of our sites have certified management systems. All the sites in the **engineered products** segment are certified for IATF 16949, apart from one, and all are certified for ISO 9001 (quality management). All the sites in **precision components** are certified to IATF 16949, which includes ISO 9001. The **surface technologies** segment also has IATF certification, apart from two sites which are ISO 9001-certified. Nearly 67 % of the **flexible films** sites are certified to the ISO 9001 standard.

The environmental and energy management systems ISO 14001 and ISO 50001 also have a significant influence on product development and processing.

Developments in the area of "product responsibility" are also monitored using the KPI "Coverage in % of production sites by certified quality management systems" (2021: 85.7 %).

High quality and safety standards

Our primary strategic goal of always ensuring the best possible quality management process is being met in 2022 by appointing responsible representatives in all the relevant segments. Quality management also entails obtaining feedback. The segments regularly measure customer satisfaction for this purpose, as part of the IATF 16949 certification, for example. In addition, there is a wide range of guidelines and auditing requirements in the segments, such as those resulting from the REACH chemicals regulation.

There are also many production and audit instructions, PSCR process instructions and specifications, and processes resulting from customer requirements. In the **flexible films** segment, for instance, the topic of "product responsibility" is embedded in the segment codes of conduct for Liability, Sustainability and Explorative Spirit, and is already an integral part of day-to-day business.

The second strategic goal of continuously improving product and process safety is to be achieved in 2022 by means of two measures: Firstly, we want to appoint product safety and conformity representatives (PSCR) in all the relevant segments and companies. Secondly, the ongoing analysis of risk products and critical products is to be expanded. The analysis is already carried out in most of the segments. At **engineered products**, it has already been implemented across the group. All the sites in the **flexible films** segment are covered too, apart from one.

The segments and companies apply numerous assurance and control measures to guarantee product safety. In addition to the policies, standards and instructions mentioned, regular processes are key: they include inspection of raw materials on delivery, precisely defined processes based on safety data sheets and process audits, product approval for processes and product specifications from our customers, and final quality checks before shipping.

The **surface technologies** segment carries out regular risk analyses based on the EU Rapid Exchange of Information System (RAPEX). The **engineered products** segment uses process audits and requalification inspections for this purpose. In cooperation with our partners, we also rely on checks and inspections, and we only work with certified and independently audited suppliers. The high quality and durability of our products means that we can also ensure their safety in use after they have been installed.



UNIVERSITY COLLABORATIONS

The segments cooperate with various universities, colleges and research institutes in the development of safe, sustainable and innovative products.

The precision components segment has a large number of projects to its credit in this regard: It is collaborating with the University of Siegen on a project to reduce noise in e-cars. This topic is highly relevant due to the generally lower noise level in e-cars than in conventional vehicles. As a result, other noises, such as those from miniature components, are much more noticeable.

Research is being conducted with the Fraunhofer Institute in the area of silicate research regarding ISC – consumables for the pharmaceutical industry. In addition, there is a project aimed at optimizing the service life of consumable tools in metalworking.

Environmentally friendly products and processes

The third goal of our ESG Strategy is to improve the energy efficiency and environmental impact of our products and processes. We promote the use of more environmental raw materials and continuously analyse opportunities for replacing dangerous or noxious substances with better alternatives. In practice, we rely on external evidence, such as EMICODE certificates for long-term clean and safe air quality or the initiative "Energy efficiency made in Germany". The segments also work with their customers on other, measurable progress as part of the continuous improvement of their environmental footprint – for example through external evaluation by the EcoVadis ratings platform.

Environmental impact is becoming increasingly important in the **flexible films** segment. The main point here is to increase the extent to which products can be reused and recycled. Product solutions are marketed with increasing success that are based on renewable raw materials, either wholly or to a significant extent. The segment has committed to the collection and recycling of PVC products via the VinylPlus association. In the construction industry, the segment products make a significant contribution towards avoiding energy losses and protecting buildings from moisture and health hazards.

High-tech textiles are important for the **engineered products** segment and show great potential for the future in terms of sustainable, responsible business. Thanks to their low weight and innovative manufacturing processes, they make it possible to tap into new applications all the time, where our products are able to substitute materials used in the past. These include an adhesive system that is free of the substances resorcinol and formaldehyde and uses mostly renewable raw materials instead.

The **precision components** segment has special beacon projects at its individual sites. Many of them are related to environmental aspects. They include the integration of extra sealant checks in ongoing processes, for example, which avoids leaks, or weight savings that also generate efficiency gains. With its portfolio of sophisticated gears and complementary plastic and metal components, the segment also supports sustainable final products related to electric mobility.

The **surface technologies** segment does not develop products in a strict sense, but rather processes. By making these processes environmentally friendly – by saving large quantities of water, reducing the amount of chemicals used or saving energy – we help our customers to make their production environmentally friendly. A key lever is the substitution of pollutants and process media.

SUPPLY CHAIN

Sustainably adding value

KAP assumes responsibility for how we conduct our business. In addition to looking at our own direct impact, we consider the positive and negative effects that our business operations have in the supply chain. The supply chain has to be considered differently in the various segments. One thing they all have in common is that they aim for long-term business relationships with their suppliers. All segments are also highly dependent on customer requirements when purchasing raw materials and products.

The main purchased products are very different. Depending on the segment, typical purchased production materials include yarn, steel, granules and substrates, chemicals, additives and paints.

One material topic was identified in the "Supply chain" action area: the topic of "Human rights".

HUMAN RIGHTS

GRI 102-9, 103-2, 103-3, 412-1, 412-2

Company supply chains are increasingly coming under scrutiny by sustainability campaigners and policymakers. As can be seen in the German Supply Chain Due Diligence Act (LkSG), respect for human rights is the most important element of this trend. Compliance with human rights must always be the foundation of all business activity. This also includes environmental aspects, because a clean environment is a human right.

For these reasons, KAP AG is committed to respecting universal human rights within our company and in our value chain. We therefore follow international guidelines such as the core standards of the International Labour Organization (ILO), the UN Guiding Principles on Business and Human Rights, and the universal values of the Global Compact. We reject all forms of modern slavery: child labour, forced and bonded labour, human trafficking and the use of violence. The right of association and collective bargaining may not be restricted.

As part of our strategy, we have developed a target in the "Human rights" area which is to be implemented using a wide range of measures in the years ahead. We will call for occupational health and safety as well as human rights to be respected in our supply chain.

Management approach

The strategic direction in the "Human rights" area is discussed in our ESG Committee. One of the three steering committees that draft proposals for the committee and develop a joint strategy for the segments is responsible for the supply chain and human rights. Operational implementation is largely the responsibility of the purchasing function in the segments and companies.

The **engineered products** segment has appointed a Global Supply Chain Manager. They monitor the segment's main suppliers of raw materials and chemicals. Deliveries of the resources and products purchased are called by the purchasing function in the individual plants.

At **surface technologies**, the purchase of energy and investment in new facilities is organised by the segment. As a rule, the remaining purchasing process is the responsibility of the sites. Individual executives make use of process descriptions, operating instructions and order forms to do their work.

In the **precision components** segment, the main purchasing areas are negotiated at segment level - coordinated by the segment's chief financial officer (CFO). Purchasing of all other goods is decentralised.

flexible films also has a decentralised purchasing structure that is managed by purchasing professionals in the companies. When the segment believes synergy effects can be achieved, the sites cooperate with one another. The intention is to create segment-wide purchasing responsibility for certain product areas in 2023.

The steering committee Supply Chain measures the status quo and progress in this action area by means of various KPIs. The main indicator is the share of suppliers (A suppliers) that have acknowledged the code in each segment.

Responsibility within the supply chain

To maintain our duty of care towards the environment and human rights, we will evaluate our global supply and value chains with a stronger focus on sustainability to minimise any risks and to live up to our responsibility as a company. We will advance our strategic goal of calling for respect for occupational health and safety and human rights in the supply chain by means of two measures in the financial year: an audit of our Supplier Code of Conduct and the expansion of our external auditing.

Our Supplier Code of Conduct is already presented for signature or at least acknowledgement when we sign contracts. It forms the basis for the purchasing process in all segments. Our Supplier Code of Conduct notifies our partners of the KAP principles of business ethics and integrity. In some segments it is already a binding document and part of the terms and conditions of purchasing, or else it is sent to the suppliers when a contract is signed.

The code includes clauses on human rights, working conditions, environmental protection and combating corruption and bribery. The segments are free to expand or specify the Supplier Code of Conduct as they wish, on condition that they always maintain the minimum standards defined in the KAP Supplier Code of Conduct. In this spirit, the **engineered products** segment has more detailed stipulations concerning the environment, energy and resources in its document.

Reviews and audits

Additional elements will be added to our supplier reviews from 2022. If our main suppliers have their own code of conduct, it will be reviewed for compatibility with the KAP Supplier Code of Conduct. If this review reveals any omissions, or if there is no code of conduct, we require our suppliers to sign the KAP Supplier Code of Conduct. In the event of non-compliance, the supplier is not listed or is struck off the list.

A business partner check is carried out on sensitive areas before entering into new business relationships; it also includes sustainability topics such as certification and ecological packaging. This takes place on the basis of our KAP Business Partner policy. A sanction compliance software tool that checks the prospective partner against sanction lists is used to implement the policy. A whistleblower system is also in place that is available to our partners as well as to KAP employees. This system can be accessed globally and also used to report human rights violations. The right to carry out audits covering human rights aspects was only exercised in isolated cases in the past.

For this reason, the KAP ESG Strategy 2025 provides for additional supplier audits to be introduced in initial segments using the sustainability rating EcoVadis. As well as auditing suppliers, EcoVadis also offers an audit of a company's own processes. We intend to evaluate the extension of EcoVadis audits to KAP itself in 2022. We want to build on the good results achieved by some of the companies. This includes the EcoVadis Gold Status in various companies at **engineered products** and **flexible films**. The segment company CaPlast is among the top four per cent of all companies rated by EcoVadis.

ABOUT THIS REPORT

REPORT PROFILE

GRI 102-45, 102-49, 102-50, 102-54

With this report, we are publishing our separate non-financial Group report (below: non-financial report) in accordance with the German Commercial Code (HGB), thus fulfilling the requirements of the CSR Directive Implementation Act at the Company and Group level pursuant to sections 315b and c of the German Commercial Code (HGB) in conjunction with sections 289b to e HGB. This non-financial report contains the legally required information pertaining to the environment, employees, social issues, respecting human rights and combating corruption and bribery. Within this report, we disclose which strategies we have pursued during the past financial year and which we will pursue in the future with regard to material non-financial issues. The disclosures on qualifying revenues, capital expenditure and operating expenditure in line with the EU Taxonomy Regulation can be found on page 23.

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

We make use of the option defined in the CSR Directive Implementation Act (CSR-RUG) of reporting in line with a framework – here, the Global Reporting Initiative (GRI) framework. This report has been prepared in accordance with GRI Standards: “Core” option.

In the course of developing the KAP ESG Strategy 2025, we defined non-financial performance indicators used for management purposes in accordance with section 289c (3) no. 5 HGB for the first time. They are disclosed in the report.

The non-financial report must disclose material risks as defined in Section 289c (3) no. 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 from page 63 forwards of the Group Management Report in the 2021 Annual Report.

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

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

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

GRI CONTENT INDEX

GRI 102-55

GRI 101: Foundation 2016			
GRI 102: General disclosures 2016			
Standard	Disclosures	Page	Comment
Organisational profile			
GRI 102-1	Name of the organization	p. 1	
GRI 102-2	Activities, brands, products, and services	p. 1	Annual Report, p. 3, 9-12, 36 and 40-41.
GRI 102-3	Location of headquarters	p. 1	Fulda, Germany
GRI 102-4	Location of operations	p. 1	KAP has 28 locations in twelve countries: Belarus, China, Czech Republic, Germany, Hungary, India, Israel, Netherlands, Poland, Portugal, Sweden and USA. A breakdown by city can be found on the KAP homepage.
GRI 102-5	Ownership and legal form	p. 1	Annual Report, p. 26 and 36.
GRI 102-6	Markets served		KAP supplies corporate customers from a wide range of industries in all relevant regions of the world. See also Annual Report, p. 37 and 40-41.
GRI 102-7	Scale of the organization	p. 1	Annual Report, p. 2-3 and 36.
GRI 102-8	Information on employees and other workers	p. 1 and 12-14	
GRI 102-9	Supply chain	p. 31	
GRI 102-10	Significant changes to the organization and its supply chain	p. 1	Annual Report, p. 26 and from 42. Other significant changes are noted at appropriate points in the text.
GRI 102-11	Precautionary Principle or approach	p. 7-11	Annual Report, from p. 63.
GRI 102-12	External initiatives	p. 8 and 33	
GRI 102-13	Membership of associations		KAP AG did not have any relevant memberships in 2021.
Strategy			
GRI 102-14	Statement from senior decision-maker		Annual Report, p. 4-5.
Ethics and integrity			
GRI 102-16	Values, principles, standards, and norms of behavior	p. 7-8.	
Corporate governance			
GRI 102-18	Governance structure	p. 3-6	Annual Report, from p. 21 and 38.
GRI 102-20	Executive-level responsibility for economic, environmental and social topics		The information about these topics is presented separately in the respective management approaches.
Stakeholder engagement			
GRI 102-40	List of stakeholder groups	p. 6	
GRI 102-41	Collective bargaining agreements	p. 13-14	The percentage cannot be stated with certainty at present. Appropriate structures are being set up.
GRI 102-42	Identifying and selecting stakeholders	p. 6	The relevant stakeholders are regularly evaluated by the responsible departments.
GRI 102-43	Approach to stakeholder engagement	p. 2 and 6	
GRI 102-44	Key topics and concerns raised	p. 2-4 and 6	
Reporting practice			
GRI 102-45	Entities included in the consolidated financial statements	p. 33	
GRI 102-46	Defining report content and topic boundaries	p. 2	
GRI 102-47	List of material topics	p. 2-4	
GRI 102-48	Restatements of information		All relevant changes are presented in the corresponding sections.

GRI 102-49	Changes in reporting	p. 33	All relevant changes are presented in the corresponding sections.
GRI 102-50	Reporting period	p. 33	
GRI 102-51	Date of most recent report		April 2021
GRI 102-52	Reporting cycle		Annually
GRI 102-53	Contact point for questions regarding the report		Imprint
GRI 102-54	Claims of reporting in accordance with the GRI Standards	p. 33	
GRI 102-55	GRI content index	p. 34	
GRI 102-56	External auditing		No external audit was performed.

MATERIAL TOPICS

Standard	Disclosures	Page	Comment
GRI 205	Anti-corruption 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	p. 2-6 and 8-9	
GRI 205-1	Operations assessed for risks related to corruption	p. 11	14.3 % of the sites included were audited.
GRI 205-2	Communication and training about anti-corruption policies and procedures	p. 10-11	
GRI 206	Anti-competitive behaviour 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	p. 2-6 and 8-9	
GRI 206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	p. 11	
GRI 302	Energy 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	p. 2-6 and 18-20	
GRI 302-1	Energy consumption within the organisation	p. 19-21	
GRI 302-3	Energy intensity	p. 19-21	Fuels, electricity use, heat generation, and cooling are included in the energy intensity ratio.
GRI 302-4	Reduction of energy consumption	p. 19-20	Fuels, electricity use, heat generation and cooling are included in the reduction of energy consumption.
GRI 303	Water and effluents 2018		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	p. 2-6, 18 and 26-27	
GRI 303-1	Interactions with water as a shared resource	p. 26-27	
GRI 303-2	Management of water discharge-related impacts	p. 26-27	The individual sites deal specifically with the effects of water discharge. All companies strictly comply with applicable law and the requirements of existing management systems and certifications.
GRI 303-3	Water withdrawal	p. 27	A breakdown by water stress areas is not possible at this time. Sources of water withdrawal are water pipelines. Withdrawn water is freshwater.
GRI 303-4	Water discharge	p. 27	The targets of water discharges are water pipes. Discharged water is fresh water. Polluted water is not accounted for under water discharge.
GRI 303-5	Water consumption	p. 27	A breakdown by water stress areas is not possible at this time.
GRI 305	Emissions 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	p. 2-6 and 18-20	
GRI 305-1	Direct (Scope 1) GHG emissions	p. 21-22	
GRI 305-2	Energy indirect (Scope 2) GHG emissions	p. 21-22	
GRI 305-3	Other indirect (Scope 3) GHG emissions	p. 21-22	

GRI 305-4	GHG emissions intensity	p. 19 and 21-22	
GRI 305-5	Reduction of GHG emissions	p. 22	
GRI 306	Waste 2020		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	p. 2-6, 18 and 24-25	
GRI 306-1	Waste generation and significant waste-related impacts	p. 24-26	Described waste is self-generated waste.
GRI 306-2	Management of significant waste-related impacts	p. 26	
GRI 306-3	Waste generated	p. 25	
GRI 401	Employment 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	p. 2-6 and 12-13	
GRI 401-1	New employee hires and employee turnover	p. 13	
GRI 403	Occupational health and safety 2018		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	p. 2-6 and 16-17	
GRI 403-1	Occupational health and safety management system	p. 16-17	Where a management system for occupational health and safety is in place, temporary employees are also affected. Some of the systems are based on legal requirements, but this cannot be broken down at present. Where guidelines are used, this is indicated in the relevant places.
GRI 403-2	Hazard identification, risk assessment, and incident investigation	p. 11 and 16-17	Hazard identification, risk assessment and investigation of incidents is carried out in accordance with legal requirements, existing management systems and certifications. Reports on work-related accidents and similar incidents are collected via the HR departments. Other grievances can be reported anonymously via KAP's whistleblowing system.
GRI 403-3	Occupational health services	p. 16-17	Where required by law or operationally appropriate, company physicians or company medical services are accessible.
GRI 403-4	Worker participation, consultation, and communication on Occupational health and safety		Participation, consultation and communication take place on an ad hoc basis, depending on the segment and company, either directly or within the framework of the management systems and their contact persons. Plenary meetings can also be used for this purpose. Feedback can be provided via the HR department or anonymously via the KAP whistleblower system.
GRI 403-5	Worker training on occupational health and safety	p. 17	
GRI 403-6	Promotion of worker health	p. 17	
GRI 403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships		What is not covered by the management systems and HR departments, or what relates to the KAP supply chain, is currently under development.
GRI 403-8	Workers covered by an occupational health and safety management system	p. 16-17	
GRI 403-9	Work-related injuries	p. 17	
GRI 403-10	Work-related ill health	p. 17	
GRI 404	Training and education 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	p. 2-6 and 15	
GRI 404-1	Average hours of training per year per employee	p. 14-16	The data cannot yet be reliably broken down by gender and employee category.
GRI 404-2	Programs for upgrading employee skills and transition assistance programs	p. 14-16	
GRI 404-3	Percentage of employees receiving regular performance and career development reviews	p. 14-16	The data cannot yet be reliably broken down by gender and employee category.

GRI 405	Diversity and equal opportunity 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	p. 2-6, 9-10 and 12-14.	
GRI 405-1	Diversity of governance bodies and employees	p. 13-14.	The Management Board and Supervisory Board of KAP AG are currently composed entirely of men.
GRI 406	Non-discrimination 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	p. 2-6, 9-10 and 13-14	
GRI 406-1	Incidents of discrimination and corrective actions taken	p. 13-14	
GRI 412	Human rights assessment 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	p. 2-6, 8-9 and 31-32	
GRI 412-1	Operations that have been subject to human rights reviews or impact assessments	p. 31-32	Effective audits of supply chain partners are being established as part of the sustainability strategy.
GRI 412-2	Employee training on human rights policies or procedures	p. 10-11 and 31-32	KAP AG does not currently hold any specific training sessions on human rights policies or procedures. These topics are covered in training sessions on our Code of Conduct.
GRI 416	Customer health and safety 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	p. 2-6 and 28-29	
GRI 416-2	Incidents of non-compliance concerning the health and safety impacts of products and services		No violations in this regard became known in 2021.
GRI 418	Customer privacy 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	p. 2-6 and 11	
GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	p. 11	

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