

Engineering Excellence

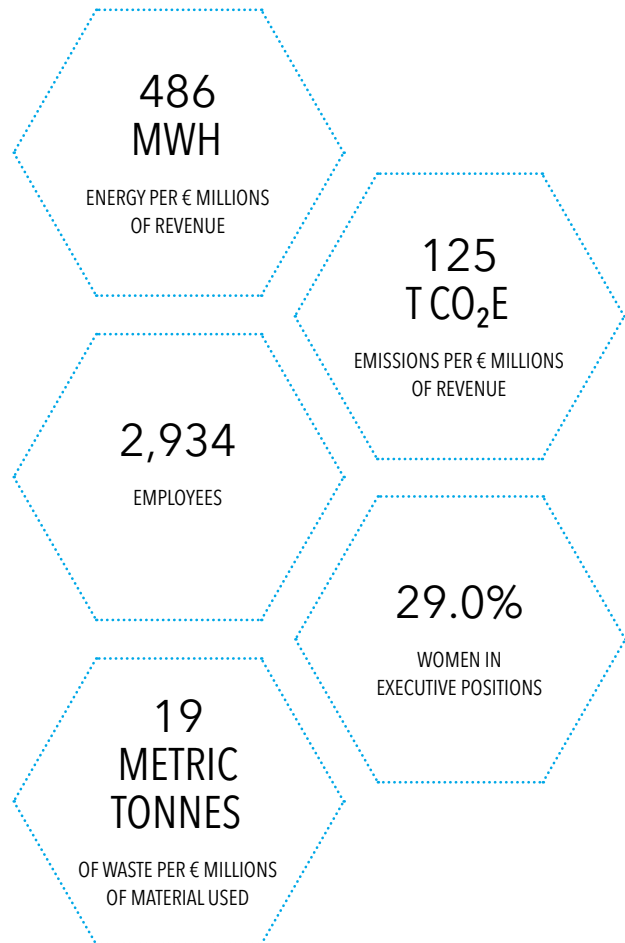
Non-financial group report 2022

2022



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ABOUT KAP

BRIEF INTRODUCTION TO THE SEGMENTS AND BUSINESS MODEL

GRI 2-1, 2-2, 2-3, 2-6

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 reporting year, which began on 1 January 2022 and ended on 31 December 2022: **engineered products**, **flexible films**, **surface technologies** and **precision components**.

The **flexible films** segment is a leading specialist in Europe in extrusion coatings, calendaring 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 the water sector, 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.

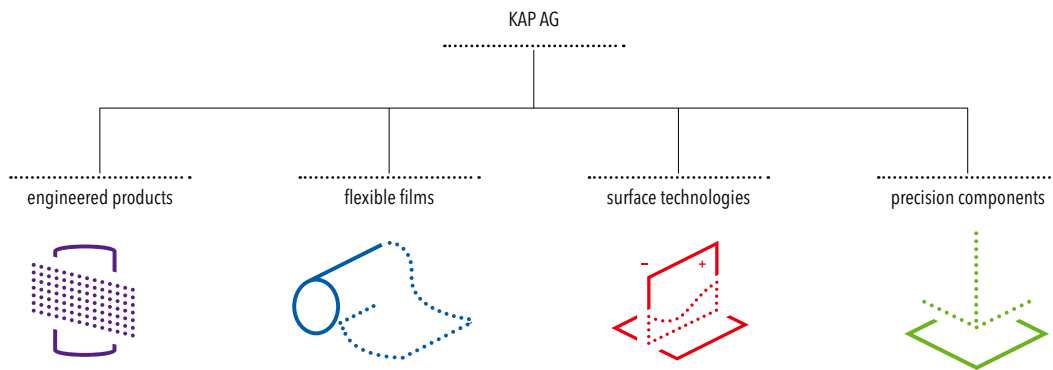
The **engineered products** segment develops, produces and sells technical textiles. The areas in which our yarns and fabrics are used include power transmission belts in the automotive and agricultural sectors, air suspension

in the field of road and rail transport, and reinforcement for flexible feed pipes for industrial use. 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 **surface technologies** segment carries out a wide range of surface processes for our customers. In this connection, 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 and electronics 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 the 2022 Annual Report



SUSTAINABILITY MANAGEMENT

STRATEGY AND MANAGEMENT

GRI 2-9, 2-29, 3-1, 3-2, 3-3

KAP AG is committed to responsible corporate governance in all entities concerned. Economic success, integrity and social responsibility are equally important goals for KAP – regardless of whether we or our segment companies operate in Germany, Europe or anywhere else in the world.

We are guided by the objective of sustainable development to secure the future and, through our business operations, make a contribution towards the achievement of individual Sustainable Development Goals (SDGs) of the United Nations. While it is very important that all SDGs are implemented, four 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) and the GRI standards we apply, we regularly conduct materiality assessments. In doing so, we continuously analyse the impact of our business activities on economic, environmental and social aspects and assess their influence on KAP's long-term value creation. In assessing the impact, we consult internal and external stakeholders and experts and rely on market observations.

Following previous materiality assessments in 2017 and 2019, as well as the internal review and adjustment as part of the strategy development in 2021, we again conducted a materiality analysis in the reporting year.

Based on international frameworks such as the Sustainable Development Goals and the United Nations Global Compact, reporting standards such as GRI, SASB and TCFD, rating requirements (e.g. EcoVadis) and a peer group analysis, we have compiled an extensive catalogue of topics. In total, this included 233 economic, environmental and social topics on which KAP's business activities may have a positive or negative impact. Following in-depth internal consultation, 29 topics were prioritised on the basis of their potential impact and grouped into the fields of action "people", "corporate governance", "social commitment", "customers and products", "supply chain," and "environment".

In an anonymised online survey, respondents, including selected representatives of external stakeholders as well as KAP senior managers, were able to submit their assessments. They were asked to rate, on a scale of zero (no impact) to four (very strong impact), the extent to which KAP's operations positively or negatively impact the prioritised topics, or the extent to which these topics impact KAP's long-term business performance and future profit/loss.

After the survey was completed, three scenarios were evaluated with thresholds of 2.8, 2.9, and 3, which included 18, 12 and 8 topics, respectively. Finally, due to the considerable impact of the topics, the threshold for materiality was set at 2.9.

The topic of work-life balance was treated as an aspect of the topic of labour/management relations. In the "supply chain" field of action, all prioritised topics were below the threshold. Nevertheless, we have decided to continue to report in a separate section on the measures taken to comply with social and environmental standards in the supply chain, not only because of the legal requirements under the German Act on Corporate Due Diligence Obligations in Supply Chains (LkSG), to which KAP will be subject from 2024. This resulted in a total of ten material topics in four fields of action. These were confirmed by the KAP ESG panel.

List of material topics

1. Corporate governance
 - Compliance and integrity
 - Data protection and information security

2. People
 - Labour/management relations
 - Labour market
 - Occupational health and safety

3. Environment
 - Energy and emissions
 - Climate risks and opportunities
 - Waste and hazardous substances

4. Customers and products
 - Product safety
 - Sustainable innovations

Change on 2021

Compared with the previous year, this resulted in certain shifts in materiality. The topic of “ethics & integrity” is now reported on under “compliance and integrity” and no longer separately within the corporate governance section. The “data protection” topic was supplemented by the aspect of “information security”. In the “people” field of action, the topic “working conditions” has been replaced by “labour/management relations”, the topic “training and education” has been removed, while “labour market” has moved up the list of material topics. In the “environment” field of action, the “water” topic was omitted as logical step in light of the Company’s low water usage. The topic of “climate risks and opportunities” is new. In the “customers and products” field of action, the aspect of “product responsibility” has shifted to “product safety”. However, we will continue to report on the responsible use of our products throughout their entire life cycle. A new sustainability factor was added with “sustainable innovation”, where we will look at materials and their recyclability.

ESG strategy

For us, responsibility and integrity are the basis for the trust placed in us by our customers, business partners, shareholders, society and our employees. Therefore, in 2021, we developed our KAP 2025 ESG Strategy based on the material topics from 2019. We are continuing to pursue this medium-term strategy, although the 2022

materiality analysis has resulted in a certain shift and reordering of the topics. We have defined 25 strategic and 4 overarching objectives for our sustainability management. Measures covering a specified period have been assigned to each goal. Progress is measured using KPIs.

	Overarching goals	Time frame
Sustainability management	<ul style="list-style-type: none"> – Grow ESG organisation – Expand sustainability reporting – Expand stakeholder dialogue – Perform and continuously improve ESG ratings 	<ul style="list-style-type: none"> – 2022–2024 – 2022–2023 – 2022 – continuously
Field of action	Strategic objectives	Time frame
Corporate governance	<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 compliance training for specific target groups – Ensure regular compliance audits – Expand Code of Conduct and consistently require adherence to it – Commit to and support global value alliances – Further improve and regularly challenge data protection and information security 	until 2025: timetable at the level of individual measures
People	<ul style="list-style-type: none"> – Increase KAP's appeal as an employer of choice – Promote diversity at KAP – Expand HR development measures and improve controlling – Recruit at least 20% of executives from our own ranks – Expand number of trainees and, if possible, take on 100% of trainees and dual-track students – Promote health and ergonomics at KAP – Promote occupational safety 	until 2025: timetable at the level of individual measures
Environment	<ul style="list-style-type: none"> – Expand waste management and identify primary waste types – Expand recycling at KAP – Sustainable use of raw materials and packaging at KAP and its customers – Expand environmental management and compile all key energy and emissions data – Increase energy efficiency and reduce energy consumption by 10% by 2025 – Avoid and reduce emissions – Reduce specific water consumption of production processes 	until 2025: timetable at the level of individual measures
Customers and products	<ul style="list-style-type: none"> – Ensure quality management process – Continuously improve product and process safety – Improve energy efficiency and environmental impact of products and manufacturing processes 	continuously
Supply chain	<ul style="list-style-type: none"> – Require respect of occupational health and safety and human rights in the supply chain 	2023–2024

Sustainability management at KAP

Based on awareness of the social, environmental and economic organisation of the entire value chain, we meet the challenges of a networked and global economy. Responsible and ethical conduct towards our employees, business partners and shareholders, and towards the environment is an integral part of KAP AG's system of values.

We have set ourselves four overarching objectives for our sustainability management:

1. Grow ESG organisation
2. Expand sustainability reporting
3. Expand stakeholder dialogue
4. Perform and continuously improve 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 Supervisory Board and the Management Board of KAP AG give the topic high priority and support the implementation of the KAP 2025 ESG Strategy in full.

The ESG strategy's first important step consisted in defining responsibilities in concrete terms. Starting in 2022, sustainability was reorganised at KAP in accordance with our objective of expanding the ESG organisation. To this end, we hired a sustainability manager and established two new organisational bodies: the ESG panel and the steering committees. In addition to the environmental steering committee, a further steering committee will be established in 2023 dedicated to the supply chain.

The ESG panel has overall responsibility for strategy implementation. It ensures that sustainability and corporate ethics are firmly anchored in corporate strategy, management and our daily actions. It is also responsible for reporting and sustainability management.

The ESG panel 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, environment and compliance. The topic officers for the topics of occupational safety and diversity are also to be appointed and included in the panel in the course of 2023.

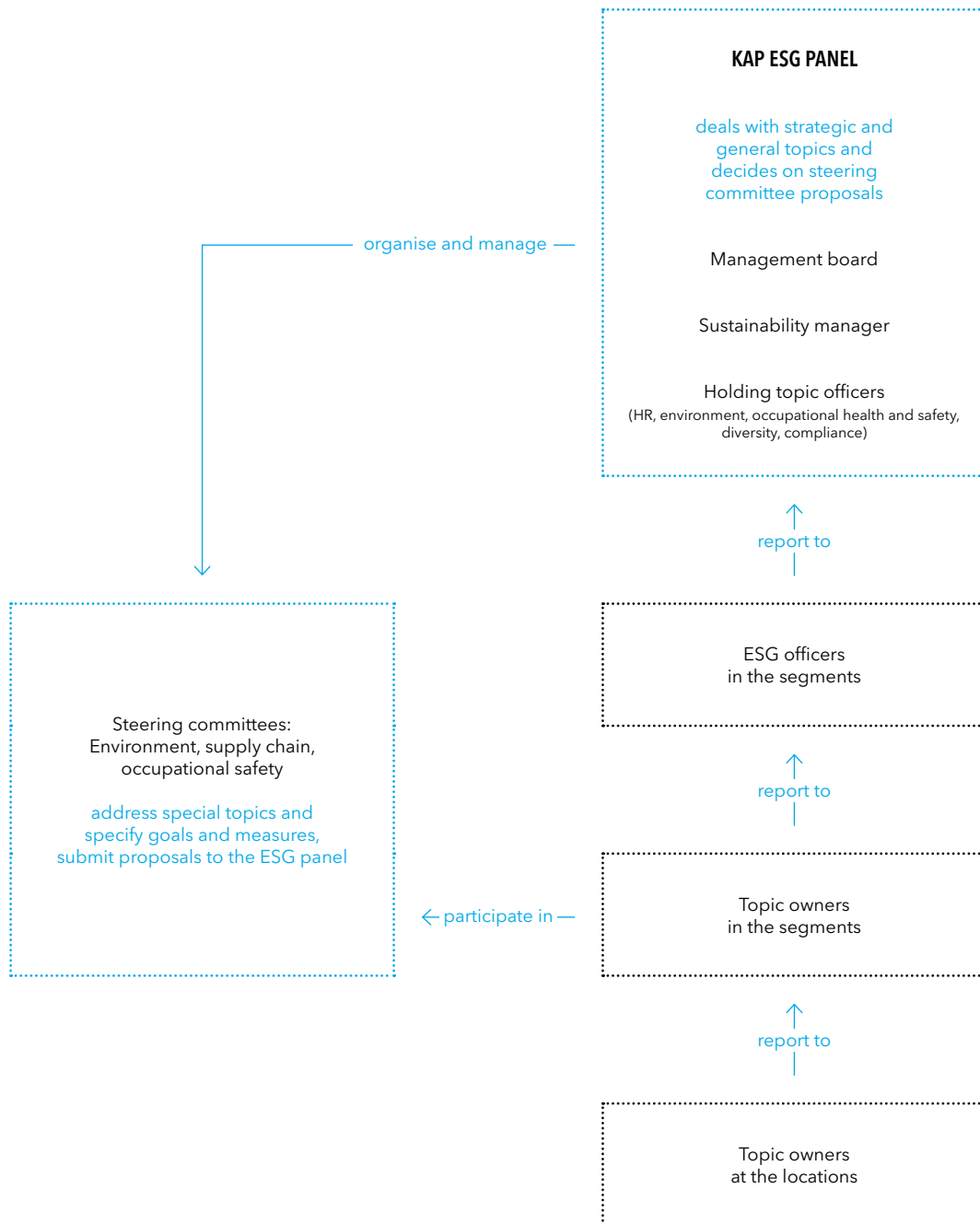
Its members deal with the strategic direction of sustainability management at regular meetings and monitor progress towards the objectives. They also review and decide on suggestions and recommendations made by the steering committees. The meetings are organised by the sustainability manager and prepared in collaboration with the topic officers. The content is supplied by the segments.

The Supervisory Board, as the highest governance body, is responsible for reviewing and approving the reported information. It has delegated responsibility for managing impacts to the ESG panel. To this end, the Management Board, together with the sustainability manager, reports regularly to the highest governance body. KAP AG's non-financial group report is discussed in detail and approved at a meeting of the Supervisory Board.

Sustainability in day-to-day business operations is also managed by our sustainability manager, who serves as the central contact point for the various issues. He is supported by the ESG officers of the segments.

The topic officers of the segments organise and steer the second organisational body: the steering committees. The Environmental Steering Committee was established in 2022. The Supply Chain Steering Committee will be established in 2023. The purpose of the two steering committees is to address the special topics across all segments. They are to hold regular meetings at which they review the objectives and measures for consistency and update them. For major adjustments, proposals will be developed and adopted by resolution of the ESG panel.

In addition to the corporate topic officers for the environment and compliance, who are on the ESG panel, topic owners are appointed from the segments to take part in the steering committee meetings. They consolidate reports from the individual segment locations and represent the segments. The managing directors of the segments have the entrepreneurial freedom to independently implement and drill down on the jointly defined targets.



Transparency and stakeholder dialogue

Transparency is an important corporate value for KAP. Orienting the organisation towards the needs of our stakeholders requires regular communication with them. Through this open dialogue with them, we are able to identify their interests and possible conflicts of interest at an early stage and deal with them in dialogue. The aim is to provide all interested stakeholders with the information 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. With this in mind, we have set the objective in our KAP 2025 ESG Strategy of expanding stakeholder dialogue by regularly and actively contacting all relevant stakeholders. The relevant stakeholder groups are listed below:

Stakeholder groups	Communication channels
Investors/shareholders	Email, phone calls, reporting, conferences, website, press and ad hoc releases, social media, trade fairs
Customers	Newsletters, email, phone calls, website
Employees	Internal regular meetings, announcements, email
Suppliers	Email, phone calls, face-to-face meetings
Banks	Email, phone calls
Interested public	Website, reporting, social media, press releases
Non-governmental organisations	Website, reporting, press releases
Sustainability movement issues	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. For the reporting year 2022, we implemented one measure and report in accordance with the GRI standards. To be able to collect the necessary data, additional contacts were named as part of the KAP 2025 ESG Strategy at the sites step by step from 2022 and the use of ESG software was reviewed. In the course of the year, we will also prepare a screening of suitable accountancy firms to perform an external audit of our non-financial reporting for the first time in the following year.

In 2022, KAP joined the UN Global Compact as a member and is committed to complying with its Ten Principles. In 2023, we also want to move forward in the area of ESG ratings and commission our first ratings.

CORPORATE GOVERNANCE

ACTING ETHICALLY, LAWFULLY AND WITH DUE CARE WITH RESPECT TO SAFETY

As a company, KAP is integrated in its social and natural environment. This gives rise not only to many benefits but also to responsibilities: the responsibility to operate in a sustainable manner and on the basis of sound moral foundations as well as the responsibility to always comply with all laws and regulations, also with respect to data protection and information security.

The Management Board and Supervisory Board bear primary responsibility for corporate governance. The investor relations and legal & compliance departments bear the operational responsibility. In implementing good corporate governance, we base our actions on the recognised standards set out in the German Corporate Governance Code (GCGC). KAP's Management Board and Supervisory Board release a related declaration of compliance every year, which we make available to the public. You can find an in-depth description of our corporate governance strategy at KAP in the 2022 Annual Report.

Corporate governance includes the two material topics of compliance as well as data protection and information security. The following goals were formulated for the topic area in the KAP 2025 ESG Strategy:

- Expand compliance management and communication with the segments even further
- Expand the whistleblower system and regularly analyse risks
- Expand compliance training for specific target groups
- Ensure regular compliance audits
- Expand Code of Conduct and consistently require adherence to it
- Commit to and support global value alliances
- Further improve and regularly challenge data protection and information security

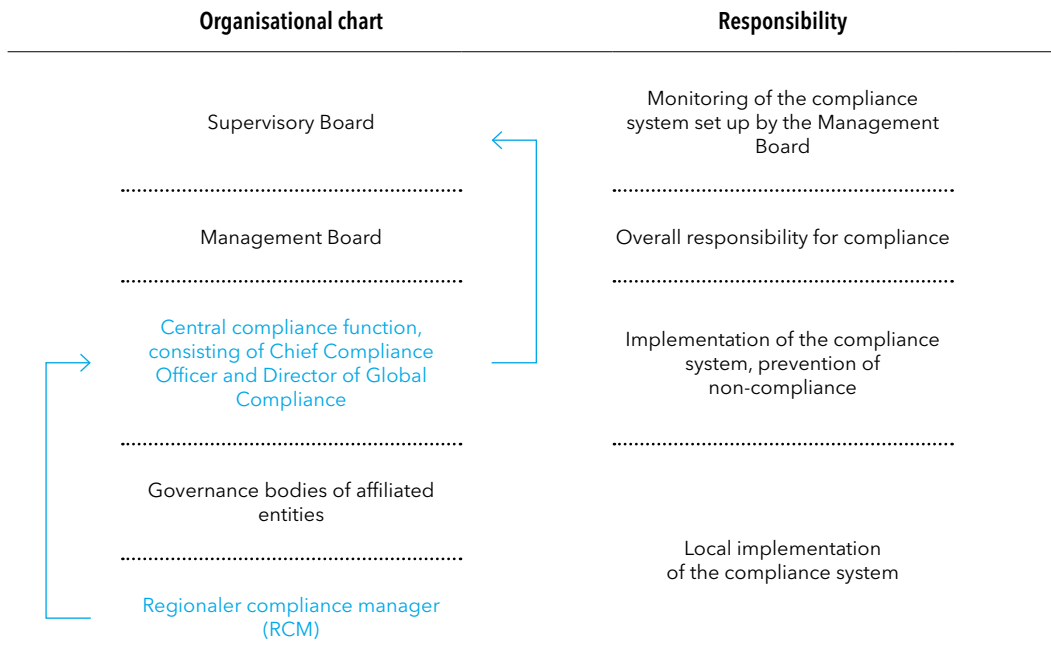
COMPLIANCE AND INTEGRITY

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, regulations and ethical principles in our business dealings around the world on all of the markets in which we are active.

We strive to protect the Company from any possible damage and demonstrate our integrity and ethical conduct in our interactions with employees, business partners, society and the environment, and in compliance with all relevant (inter)national legal requirements as well as human rights.

Management approach

The Management Board bears 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 member of the Management Board responsible for legal and 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 central compliance function'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 to the central compliance function on progress and incidents. The central compliance function informs the Management Board of current developments at a regular 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 and controlling as well as risk management.

Since 2021, there have been monthly meetings between the central compliance function and the RCMs. This is intended to improve mutual knowledge transfer and communication between the segments.

Progress in the area of compliance is measured and verified using the following KPIs:

- Coverage of sites by compliance management system (CMS) (2022: 100% of all sites)
- Proportion of employees who have completed compliance training

Compliance management system

All measures in the area of compliance are organised through our compliance management system, which we continuously expand to include new companies. The CMS is based on the three pillars “prevent”, “detect” and “respond”.

The “prevent” pillar involves compliance risk analysis, our guidelines, training and business partner screenings. “Detect” takes place through, for example, compliance checks or our internal whistleblower system. Finally, “respond” encompasses the internal and external crisis communication strategy and remedying of vulnerabilities identified.

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, all group companies and target groups received training on diverse compliance issues as the need arose and, as already stated, monthly meetings were held between the central compliance function and the RCMs.

As of 2022, RCMs also report regularly to the central compliance function. Through communication improved in this way with the segment companies, we ensure that the CMS is implemented. Documentation and instructions can also be prepared with the CMS to help individual companies learn from each other.

Value-based management

Ethics and integrity must be practiced by the Group's management but must also be the guiding principles in day-to-day business. Introduced in 2017, KAP's Code of Conduct plays a pivotal role in this regard.

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 2023. 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). They also receive appropriate training as part of the onboarding process. Regular training sessions are held on the Code of Conduct and other compliance topics to ensure employees are always aware of these issues.

Global value alliances

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 our strategic goal to commit to and support global value alliances, we joined the UN Global Compact in 2022 and are committed to upholding and promoting its ten universal principles in the areas of human rights, the environment and anti-corruption.

In 2023, 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 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 avoiding and disclosing conflicts of interest, for offering and accepting benefits, gifts and invitations, as well as for arranging political and charitable donations or sponsorship. The policies cover the following topics:

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

The policies apply to all segments from their entry into force. As long as they comply with all the policies, the segments can make the policies more specific.

In 2023, we plan to re-evaluate various policies. We aim to expand not only the existing compliance policies, but also the instructions regarding sustainability and the requirements under the German Act on Corporate Due Diligence Obligations in Supply Chains. In 2023, but no later than the middle of 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 "supply chain" section.

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 the financial year, we provided training to all KAP Group employees on compliance topics, in particular with regard to anti-bribery and corruption controls, sanctions checks, export controls and trade compliance and business partner checks, among other

matters. Participants were also briefed regarding the requirements of the German Act on Corporate Due Diligence Obligations in Supply Chains (LkSG).

In addition, in 2023 we decided to tailor the training still more precisely to our needs and specific target groups. 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 verified.

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

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

In addition, the management teams of the KAP Group companies receive separate face-to-face training on relevant topics. In 2022, employees at all sites received face-to-face training. In the strategy programme, we have adopted a measure to further expand such face-to-face training in 2023 on a risk-group-specific or needs-oriented basis, including in purchasing or sales, for examples.

The KAP whistleblower system

To draw attention to any compliance violations, the KAP Group has been using an anonymised electronic whistleblower system with an external ombudsperson since March 2022 to enable whistleblowers to contact a direct contact person. In accordance with the recommendations set forth in the German Corporate Governance Code, the current system provided by the external ombudsperson offers all employees and third parties the opportunity to contact the compliance department via KAP AG's website. The system is operated in compliance with the highest IT and data protection standards. The Management Board sent a memo to all employees to promote the whistleblower system and provide information on the specifics of using the system. This is intended to help whistleblowers better assess whether a relevant compliance case exists.

In addition to the anonymous reporting channel through the ombudsperson, it is also possible to report any knowledge or suspicion of criminal acts or serious irregularities directly to KAP AG's central compliance function via the compliance hotline. In the reporting year, there were reports that were evaluated and processed accordingly.

The whistleblower system is an important instrument of compliance management at KAP. We have therefore set ourselves the goal within the KAP ESG Strategy of expanding it and regularly analysing risks.

Compliance cases reported in 2022 were recorded and processed accordingly. Beyond this, there were no pending legal actions for anti-competitive behaviour or anti-trust or monopoly practices in the reporting year.

Ensure regular compliance audits

The expansion of the whistleblower system involves the expansion of compliance audits and monitoring measures. 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 2025 ESG Strategy. In 2022, nine audits and checks were carried out as part of the internal audit.

The internal audit is carried out on an ongoing basis, supported by compliance audits. Internal investigations are carried out on the basis of any suspicions. In 2020, a comprehensive compliance audit 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 2022, nine companies were audited for compliance issues as part of the audit performed across the Group, including for instance the implementation of the business partner policy. In 2023, we plan to implement further resulting measures in the group companies.

DATA PROTECTION AND INFORMATION SECURITY

Management approach

The material topic of “data protection and information security” is subject to a separate management approach. KAP AG and its segment companies have appointed an external data protection officer for the Group, who is responsible for monitoring compliance with the relevant data protection laws. We respond to potential breaches of data privacy through our incident management procedure: in suspected cases, the data protection officer is involved immediately and, together with the compliance department and the Management Board, ascertains 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. In this context, we always apply the European Union’s General Data Protection Regulation (GDPR) throughout the Group, including in countries and companies outside of the EU.

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

Progress in the areas of data protection and information security is measured and monitored using the following KPIs:

- Penetration test results compared with previous years (four penetration tests were performed, no irregularities)

Data protection and information security

We have also set a strategic objective in the area of data protection and linked this to concrete measures. To achieve the objective of further improving data protection and information security and regularly challenging these, the following three measures are planned for 2023:

- 1) Penetration testing and security audits from the inside
Previous penetration tests related to the externally accessible Internet connections of KAP AG and its affiliated entities. In the future, additional tests will be performed from the internal network.
- 2) Phishing tests
Four phishing tests will be conducted in 2023 for all active email addresses at KAP AG and affiliated entities.
- 3) Additional training programme on the topic of cloud infrastructure
On migration to the Microsoft cloud, an additional training programme specifically for using the cloud will be established at KAP AG and its affiliated entities.

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 guided penetration tests. From 2023, 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. In this way, we want to test our training and protection systems. The challenging responsibilities in terms of data protection and information security as a result of increasing use of cloud technologies are closely supported by data protection management.

In spite of good training and systems, however, breaches may still occur. In the event of a reportable breach, the Data Protection Officer for the Group 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 subject to mandatory notification during the 2022 reporting year.

PEOPLE

CREATING AN ATTRACTIVE AND SAFE WORKING ENVIRONMENT

Our employees are our most valuable resource. Their competence, motivation and dedication enable KAP to be successful in the market in the long term and to grow steadily. Our corporate culture focuses on people and providing equal opportunities for their development and unfolding their potential in a health-promoting work environment. "People" comprises three material topics: "labour/management relations", "labour market" and "occupational health and safety".

LABOUR/MANAGEMENT RELATIONS

GRI 2-30, 3-3, 401-1, 405-1, 406-1

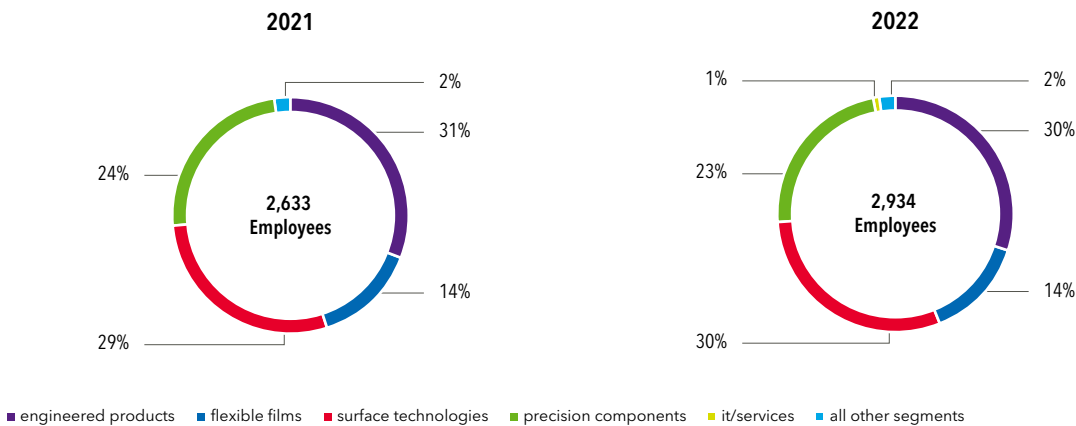
The world of work is becoming increasingly connected, fast-paced and complex. Since the start of the COVID-19 pandemic, these developments have accelerated yet further. We need to take account of these developments together with our 2,934 employees worldwide (headcount; previous year: 2,633 employees). We are supported in this by 321 temporary workers. Approximately two-thirds of our employees are wage earners and one-third are salaried employees.

Despite the rapid advancement of digitalisation, flexible working models and mobile work, manufacturing facilities and the office remain key elements of working life for our employees. Both in the workplace and during mobile work, we want to always 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.

The structure of labour/management relations and the associated good working conditions are an important component of our KAP 2025 ESG Strategy. We have developed overarching core objectives and are translating these into measures to further improve working conditions in our Company:

1. Increase KAP's appeal as an employer of choice
2. Promote diversity at KAP
3. Promote capacity development
4. Promote internal career opportunities and employee retention
5. Train and retain junior staff

Number of employees by segment¹



¹ Headcount.

Management approach

The material topic of “labour/management relations” is primarily managed by the human resources (HR) departments. Accordingly, the corporate HR department bears the main responsibility. It assumes central steering tasks, develops HR work concepts, represents the topic in the ESG panel and works closely with local HR managers. Independently of the panel’s work meetings, which are held several times a year, regular and direct reporting to the Management Board also takes place.

KAP AG’s turnover rate (2022: 16%) serves as a yardstick for measuring the success of labour/management relations, among other things. New entries increased by 34% year on year to 530 people. Close to one-third of the new employees were women. Broken down by age, 36% of the new hires were under the age of 30, 47% were aged between 30 and 50, and 17% were over 50. The departure rate remained almost unchanged at 15% or 387 persons. In 2022, 70% of people leaving the Company left on their own volition.

Turnover¹

	2022	2021	Change (%)
New hires	530	396	33.8
Leavers	387	385	0.5
Turnover ² (%)	16	14.6	8.2

¹ In headcount.

² Calculation according to Schluter formula, previous year recalculated.

KAP takes a decentralised approach to operational human resources activities. Many concrete decisions are made at segment, entity or site level. Human resources managers, with whom constant communication takes place, are appointed in each segment. There is also an annual HR meeting and, since mid-2022, a monthly HR round table session.

The HR work and strategy is implemented by the segments’ HR managers and other managers at entity 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 panel in an advisory capacity on specific topics as appropriate. In future, awareness of the topic of diversity is to be raised even further. Representatives of people with severe disabilities have already taken responsibility for the topic of inclusion at 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 in line with our strategic objectives. These relate both to our German sites and our international sites.

Since 2022, we have supported our strategic objective of increasing KAP’s appeal as an employer of choice by making office-based jobs more flexible. Where possible, mobile work and virtual meetings should also be part of working at KAP after the end of the COVID-19 pandemic. In 2022, we specified the conditions for mobile work in some segments.

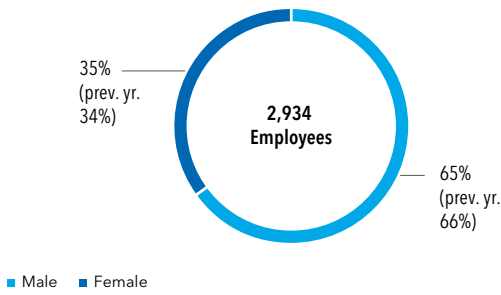
To get a sense of our employees’ level of satisfaction, we need to measure it. Employee surveys are already being conducted in individual segments.

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, wherever this is possible and does not interfere with workflows. Work-life balance is also to be reviewed and promoted at the individual sites on an ongoing basis. To enable more flexibility for employees who have to care for children or other family members, other working arrangements such as part-time employment can be considered in an uncomplicated and flexible way. Some companies provide allowances to support families with young children, such as subsidising kindergarten places.

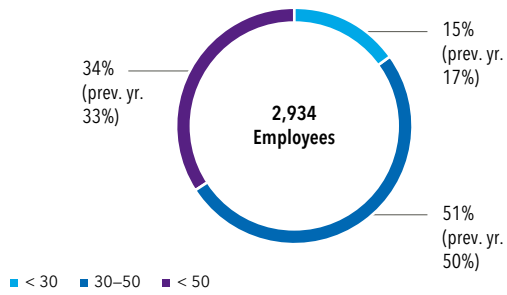
Diversity, equal opportunities and co-determination

Fair and equitable 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 through dedicated management. Including in relation to production and technology, we thus want to intentionally foster diversity within the Company, for example through job advertisements that are clearly geared towards diversity.

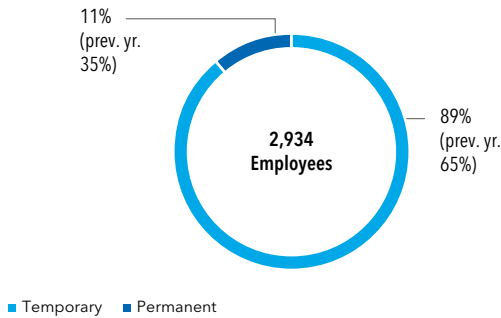
Number of employees by gender¹



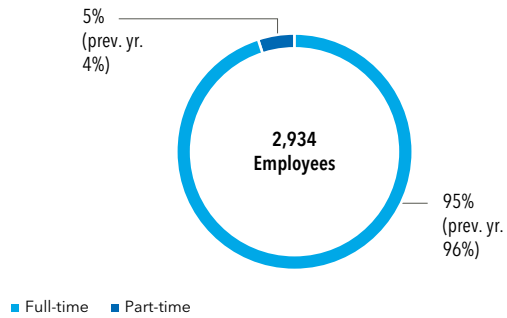
Number of employees by age¹



Temporary and permanent employees¹



Full-time and part-time employees¹



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 employees.
² Group-wide data was not available in the previous year for temporary or permanent employees.

At KAP, everyone is treated with equity regardless of ethnic or social background, gender, skin colour, religion, sexual orientation, disability or age. No complaints of discrimination were reported in 2022, for instance via the anonymous whistleblower system. Therefore, there were also no cases of discrimination that resulted in measures being taken in the reporting year.

KAP embraces diversity. In Germany alone, we employed people from 39 different countries in 2022. In total, 39% of employees are employed in Germany. This is followed by Hungary with 10%, Portugal with 10%, Belarus with 7% and the Czech Republic with 4%. The regions of China, India, the Netherlands, Poland, the United States and

Sweden each account for less than 4% of employees. The proportion of female managers at KAP is 29%. This is slightly below the proportion of women in the total workforce, which is 34%.

Good working conditions also depend on fair pay and the opportunity for co-determination. 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 (2022: 66% of all part-time employees). The amount of remuneration is based on binding collective bargaining agreements in some cases and on any individual agreements on bonuses.

We also attach great importance to employee participation and co-determination. Many companies have employee representatives who are involved in decision-making processes and with whom the governance functions responsible maintain a close dialogue. Statutory protection against dismissal applies to the employees of the KAP Group in accordance with the respective local law.

In Germany, HR employees received training in the reporting year 2022 on the new German Employment Relationship Verification Act (NachwG), under which employees must be made aware of the framework conditions of their employment relationship. Internationally, the HR functions were expanded and strengthened with employees who have knowledge of local labour law in particular.

LABOUR MARKET

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

In some countries, including Germany, challenging conditions prevail in the recruitment of workers. The labour market is dominated by employees. This is primarily due to demographic change, global competition and shortages of qualified workers.

We tackle this challenge – as described in the previous section – by offering good working conditions to achieve a high level of employee loyalty and thus retain knowledge within the Company. In addition to that, we focus on the systematic training and education of our employees.

As part of our KAP 2025 ESG Strategy, we have developed three overarching goals in the area of the labour market, which includes the topics of employee retention, recruitment as well as training and education:

1. Expand personnel development measures and improve controlling in the systematic HR development process
2. Recruit at least 20% of executives from our own ranks
3. Expand number of trainees and, if possible, take on 100% of trainees and dual-track students

Management approach

The Human Resources function strategically manages the topic at Group level in close consultation with the Management Board and the officers responsible in the segments. This is where the overarching strategies are developed and employer branding initiatives are managed to position KAP as an employer of choice. Our focus is not only on addressing and attracting external candidates in a targeted manner, we also implement initiatives to retain internal employees. The operational human resources work – in other words the recruitment of trainees, the initial training programmes and the promotion of continuing training – is derived from this basis and carried out by human resources managers at segment and entity level.

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

- Average hours of training per employee in 2022: 28 (2021: 19.1 hours)
- Proportion of managers from our own ranks in 2022: 33% (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 needs-oriented, individual development of expertise, skills and qualifications.

A wide range of training and education measures, ranging from basic training to advanced follow-on courses, ensures the performance of our new recruits and experienced staff alike with regard to their current and future activities. This way, we also take into account developments such as demographic change, the declining working population and changes in the working world.

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

Among other things, we began implementing a project to introduce modular HR software in the reporting year and will roll this out successively at our largest sites starting in 2023. This will enable us to record and analyse training hours with even greater accuracy with the aim of gradually increasing them. An additional objective of the HR software is to increase efficiency and improve HR processes. It is in our interest that staff can continue to pursue their career development with us and expand their knowledge and qualifications on an individual basis and in line with our corporate objectives. In 2022, the number of training hours per employee at KAP was therefore approximately 28 hours.

We use the annual feedback meetings to guide and shape our employees' development. In 2022, a feedback session was held with 38% of employees, as the process for feedback sessions has not yet been rolled out across the board. The data could only be securely collected for 70% of the total workforce. During annual employee reviews and individual target setting meetings, development potential, goals and training options are 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. We draw on internal and external speakers and training institutes in this context. Employees started 65 training courses to become a technician or master craftsperson across KAP in 2022. Of such training courses, 36 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 is granted by KAP once the relevant requirements are met. If a training course is directly related to the job or prepares the staff member for a more advanced job, the chances are highest for obtaining employer funding. Many training options are not just supported financially, employees can also take advantage of training during their work time.

Managers

Good managers are a basic precondition for a targeted corporate governance. On the one hand, we recruit our junior managers from universities of cooperative

education and other universities, relying on close cooperation, often over the course of many years. At the same time, we also identify and promote young specialists and managers and rely on internal resources to cover succession planning for key positions. 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, 64 of the 192 managers were previously regular employees or trainees at KAP. This means that 33% of the Group's managers were developed internally. At present, 13% of positions with disciplinary management responsibilities are filled by local managers.

Offering more traineeships

We are pursuing our strategic aim of training more trainees and taking as many of them on as possible by increasing even further the range of training offers available at our company sites. A review is currently under way of new training and study programmes that we could offer. In this way, we can secure our own junior staff in promising occupational fields. Trainees can currently choose from 14 vocations and three courses of study in cooperation with dual education universities at our German sites.

Vocational training is available at many of the companies in the KAP Group. The qualifications offered range from commercial and technical to process-based fields. We also offer traineeships in IT and electrical engineering. In addition, some locations offer training to become specialists, an offer practically unparalleled in Germany in this form.

OCCUPATIONAL HEALTH AND SAFETY

GRI 3-3, 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 our highest priority. The KAP 2025 ESG Strategy aims to maintain and improve our good position in occupational health and safety over the coming years. With this in mind, we have set two objectives:

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

Management approach

We pursue a Group-wide approach to occupational health and safety, which is currently managed and implemented locally in the segments and subsidiaries. In future, our recently established ESG panel will also deal with strategic questions on the health and safety of employees. In addition, we will create a steering committee on the topic in the course of 2023 devoted to operational questions, shared approaches and goal tracking. The steering committee will be headed by a yet to be appointed lead at corporate level.

Occupational health and safety officers, safety officers and hazardous substance officers have already been appointed in the segments or at the Company's sites. They organise training, carry out inspections and checks where necessary and implement the management systems for occupational health and safety. At all sites, employees can submit concerns of relevance to safety, reports of close calls and suggestions for improvement in mailboxes provided for this purpose and the matters are then dealt with by local specialists.

We promote occupational health and safety through a health management system and by complying with the health and safety policies we have created on the basis of legal regulations and the specific requirements of our individual subsidiaries. We observe all relevant legal requirements at local, national and international level. During the COVID-19 pandemic, we were able to demonstrate the effectiveness of our management system: all segments developed and implemented very detailed hygiene concepts. The holding company provided advice and support in this respect. As a result, the pandemic only caused a small number of business disruptions in 2022.

KPIs are used to measure the successful implementation of our KAP 2025 ESG Strategy, among them:

- The occupational safety management system's coverage of company sites (2022: 84.6%)
- The certified occupational safety management system's coverage of company sites (2022: 11.5%)
- Number of work-related accidents (2022: 92)

Occupational safety and management systems

Potential risk situations that may occur in the KAP companies and that we seek avoid include accidents in using plant and machinery or in connection with internal transport and accidents involving hazardous substances. To eliminate such risk situations, we have set the objective of promoting and raising the level of occupational safety at KAP as part of the KAP 2025 ESG Strategy. This is to be achieved in 2023 primarily by expanding management. Firstly, we want to appoint a corporate officer for occupational safety and establish a central structure in the form of an occupational safety steering committee. In this way, we want to achieve a certain degree of standardisation globally at all locations based on a uniform procedure. Secondly, we want to promote and expand the company sites covered by occupational health and safety management systems. A corresponding management system is currently in place at 84.6% of the sites included in the reporting scope (previous year: 57.1%). In 2022, one site in the **flexible films** segment and two sites in the **engineered products** segment were also certified according to ISO 45001 (occupational health and safety management). There are plans to obtain ISO 45001 certification at other relevant sites in the coming years. At present, 11.5% of KAP's sites are certified under ISO 45001.

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

The entities also keep accident statistics and specifically document accident figures. All reportable work-related accidents within the KAP Group are centrally recorded and evaluated in our reporting system. We recorded 92 (previous year: 73) reportable work-related accidents in 2022, which corresponds to a rate of 4.2 (previous year: 3.7) accidents per 200,000 hours worked. As in the previous year, there were no fatal work-related accidents.

Work-related accidents and ill health

	2022			2021		
	Work-related accidents	Work-related ill health	Accident rate ¹	Work-related accidents	Work-related ill health	Accident rate ¹
Total	92	28	4.2	73	22	3.7
engineered products	24	6	3.2	11	1	1.5
flexible films	35	11	13.9	21	17	6.2
surface technologies	20	6	3.0	9	0	3.5
precision components	13	5	3.9	32	4	4.8

¹ Accidents per 200,000 hours worked.

Training

Inspections are just one step. It is also important to have a comprehensive understanding of occupational safety in the workforce. Training is therefore an important field for promoting occupational health and safety.

Internal experts and external providers regularly hold occupational safety briefings and training sessions at all companies in the KAP Group. The training ranges from monthly department-specific tutorials to annual safety briefings that are documented in writing.

With the KAP 2025 ESG Strategy, we have set ourselves the goal of expanding digital training in this area by organising and conducting it centrally on a regular basis. Continuously promoting workplace briefings and workplace ergonomics helps to prevent further accidents and health problems.

Ergonomics and prevention

In 2022, we implemented our strategic objective of promoting health and ergonomics at KAP through a range of measures. These included equipping workplaces in line with ergonomic criteria and setting up comfortable workstations, but also promoting sport and offering vaccinations at work. 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 take on different tasks.

Company doctors already offer preventive check-ups at many sites. We want to expand this offer by the end of 2023. The aim of these preventive check-ups is to examine and maintain health. Our companies are also increasingly introducing their own occupational health management systems and offering measures to promote health. These include, 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. In 2022, the check-ups were conducted in collaboration with the renowned Helios Prevention Center. As part of implementing the strategy, we want to continue raising awareness of the check-ups and expand them.

ENVIRONMENT

TAKING CLIMATE ACTION AND PROTECTING THE ENVIRONMENT

We believe that acting in an environmentally conscious manner is both an ethical and entrepreneurial duty: whether within the framework of our own processes in production, sales and administration or downstream when our customers use our products. We want to continuously improve our environmental performance in all areas and thus contribute to a clean environment and to combating climate change. The environment topic area comprises three material topics: “energy and emissions”, “climate risks and opportunities” and “waste and hazardous substances”. All three topics are generally managed in a similar way.

Management approach

KAP’s ESG panel and the Group’s sustainability manager bear the main responsibility for the topics of “energy and emissions”, “climate risks and opportunities” and “waste and hazardous substances”. Strategic questions are discussed and decisions are made together in the KAP ESG panel. 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 the experts in the segments and sites depending on the given topic.

The responsibilities are specified in more detail in the segments. Environmental officers or environmental managers are appointed at segment or site level in all the segments. They are responsible for the operationalisation of measures and for monitoring targets.

The topic of environment is firmly structured in the segments based on management systems. Many of the sites are certified in accordance with ISO 14001 and ISO 50001 management systems. For instance, all sites in the **surface technologies** segment have ISO 14001 certification. All German sites here are certified under ISO 50001. Large parts of the **precision components** segment also have ISO 50001 certification. By no later than 2025, all companies except for the Belarus location are to be certified under ISO 14001.

Policies govern environmental protection in day-to-day business. For example, the **engineered products** segment has extensive environmental requirements for purchasing and for suppliers that are set out in the Mehler Specific Requirements and the Supplier Code of Conduct. In the **precision components** segment, too, purchasing criteria are in place that relate to energy efficiency, among other matters. At the same time, **surface technologies** has a supplier self-assessment that also surveys the topics of environment and energy management.

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

ENERGY AND EMISSIONS

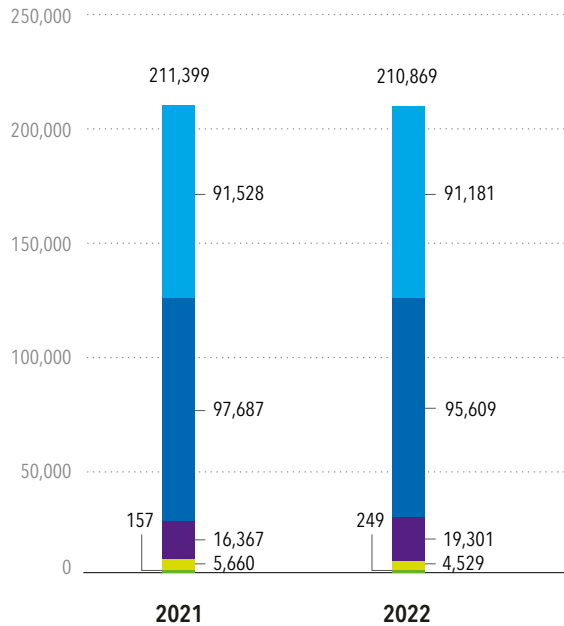
[GRI 3-3, 302-1, 302-3, 302-4, 305-1, 305-2, 305-3, 305-4, 305-5](#)

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

1. Expand environmental management and compile all key energy and emissions data
2. Increase energy efficiency and reduce energy consumption by 10% by 2025
3. Avoid and reduce CO₂ emissions

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

Energy consumption in MWh¹



■ District heating ■ Biogas ■ Diesel/Gasoline ■ Natural gas ■ Electricity

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

Management approach

The ESG panel 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 panel, the operational work is performed in each segment’s individual steering committees. The Group’s sustainability manager heads the steering committees and prepares the meetings.

The responsibilities are specified in more detail in the segments. In addition to the aforementioned environmental officers, 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 agenda.

The steering committee monitors progress on the objectives and measures using various KPIs and additional metrics:

- Megawatt hours of energy consumption per metric tonne of material used (2022: 2.8 MWh) – without **surface technologies***)
- Metric tonnes of CO₂e per tonne of material used (2022: 0.7t CO₂e – without **surface technologies***)
- Megawatt hours of energy consumption per million euros of revenue (2022: 486 MWh/€ million)
- Tonnes of CO₂ equivalents (CO₂e) per million euros of revenue (2022: 125t CO₂e/€ million)
- Coverage of company sites with ISO 14001 certification (2022: 74%)
- Coverage of company sites with ISO 50001 certification (2022: 56%)

* In the **surface technologies** segment, production volume is not measurable in metric tonnes, but rather in dm².

Better energy performance

We have started working towards our objective of expanding management and data collection by setting up environmental steering committees. Starting in mid-2022, they met every two weeks in the two most energy-intensive segments **engineered products** and **surface technologies**. In the meetings of the steering committees, the current and also future measures are regularly evaluated. In addition, terms are defined as required as a basis for further work. Beyond that, the company sites introduced joint internal emissions reporting for scope 1 and scope 2 emissions.

The appointment of the sustainability manager as of 1 July 2022, who is primarily responsible for the topic of environment, CO₂ emissions and energy efficiency, is also contributing towards reaching this objective. The sustainability manager supports the segments and company sites in establishing even more comprehensive and uniform data collection for scope 1 and scope 2 emissions. In the **flexible films** segment, initial activities are under way to record scope 3 CO₂ emissions, while in the other three segments preparations are in progress to record scope 3 CO₂ emissions in 2023.

Energy consumption categories by source

in MWh	2022	2021	Change (%)
Total consumption	210,869	211,399	-0.3
Electricity used	91,181	91,528	-0.4
from renewable sources	36,808	38,366	-4.1
from non-renewable sources	54,373	53,162	2.3
Natural gas used	100,138	103,347	-3.1
from renewable sources (biogas)	4,529	5,660	-20.0
from non-renewable sources	95,609	97,687	-2.1
Heating oil used	19,301	16,367	17.9
from renewable sources	25	22	13.6
from non-renewable sources	19,276	16,345	17.9
District heating used	249	157	58.6

Efficiency in the segments

The **surface technologies** segment is pressing ahead with the previous year's project of switching to LED lighting. In addition, the segment is installing new meters to improve metering quality, replacing hot air dryers with modern vacuum technology, reconditioning compressors and reducing standard air pressure. These and other measures are derived from the energy audits regularly performed in the segment. Improvements are also achieved through training on topics such as quality, energy and the environment as part of employee training days. Per million euros of revenue, energy consumption came to 948 MWh (down 13% year on year).

When making new investment in the **engineered products** segment, energy efficiency and emissions reduction are always taken into account as part of the environmental programme. To lower energy consumption, we are advancing the conversion to LED lighting and continuously replacing old motors with new ones that afford greater energy efficiency. In 2022, 652 MWh of energy was consumed per million euros of revenue (down 20% year on year). The newly launched Integrated Excellence (INEX) initiative is designed to trigger a continuous improvement process.

The **flexible films** segment systematically improved energy use and consumption by means of an action plan. Machines, plant and other equipment are already purchased by reference to energy-efficiency criteria. Preventive maintenance measures, optimisation processes and leak management are carried out continuously. In 2022, the segment's priorities included optimising production processes and sequencing, using free coolers or optimising dryer times at individual sites. The **flexible films** segment consumed 237 MWh of energy per million euros of revenue (up 4% year on year).

The **precision components** segment 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 introduction of LED lighting continued in the reporting year with the hall lighting of the Dresden plant's production facility and the site lighting at Gear Motion Ehingen – the full conversion was completed in 2022. Bebusch Hungária promotes staff awareness of environmental and energy matters through a monthly newsletter. The company sites provide training on environmental topics and employees are rewarded financially for submitting ideas to improve environmental performance as part of the suggestion management programme. The segment's energy consumption per million euros of revenue came to 258 MWh in 2022 (down 19% year on year).

In 2023, the environmental steering committee will work on the definition and adoption of purchasing criteria for all segments that take energy efficiency into account.

CLIMATE RISKS AND OPPORTUNITIES

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

Progressing climate change requires companies such as KAP to conduct a thorough analysis of the climate risks and opportunities arising from their business activities on the one hand and from climate change itself for the company sites on the other hand. The resulting measures help adapt to climate change and protect the climate. In this context, these measures can be seen as an opportunity for greater sustainability and crisis resilience.

Management approach

At KAP AG, the Group-wide risk management system records the risks associated with climate change, in addition to strategic, operational, financial, and compliance risks. In principle, the Management Board bears responsibility for opportunity and risk management. While the ESG panel is responsible for monitoring the measures, the Group's sustainability manager and the segment and site managers are responsible for implementing them.

In connection with climate change, the development of new products and new markets also creates opportunities for some KAP Group companies. The strategic focus is in particular on future-oriented fields such as environmental protection, climate action, energy efficiency or e-mobility, which are relevant for all major industrial sectors. Another important cornerstone of our segment strategy is increased investment in the research and development of innovative products, product groups and processes, which opens up additional growth opportunities.

KAP's environmental management includes a number of relevant regulations to minimise environmental and climate risks. Certification in accordance with ISO 14001 has been obtained at 79% of our production sites. Corresponding organisational units at the respective company sites ensure compliance with the applicable laws and regulations and continuously identify further technical means for limiting environmental and climate risks. One field of action, for example, is improving the energy efficiency of production facilities. Energy is actively managed at all sites. Approximately half of the sites are also fully certified to ISO 50001.

In addition to energy efficiency, we are pursuing the goal of reducing energy emissions with a series of measures. In 2022 and early 2023, we obtained an overview of the electricity contracts and the share of green power at all sites. Drawing on the decision-making basis obtained in this way, a corporate policy on the use of green power is to be drafted and adopted by the end of 2023. These sources produce significantly lower emissions in the generation and supply of electricity.

Since 2022, travel and company-car policies have been evaluated and established to additionally reduce emissions. This initiative is also facilitated by increasing the support for our employees to use local public transport in line with our ESG strategy. The current mobility offering includes subsidised public transport season tickets and bicycle leasing in many segments and companies.

In addition, KAP invested in 2022 in new buildings it owns in Germany, which comply with the Germany Building Energy Act (GEG).

Contribution to climate change mitigation

The segments are implementing numerous further measures to reduce emissions or planning them for 2023. The **surface technologies** segment already purchases not only conventional heat but also relies on significantly more environmentally friendly district heat from a biogas plant. In Germany, preference is given to all-electric and hybrid vehicles when selecting company vehicles.

Separate photovoltaic areas have been installed at some company sites to provide environmentally friendly charging points. In total, **surface technologies** produces 265t of CO₂ equivalents (CO₂e) per million euros of revenue (down 9% year on year).

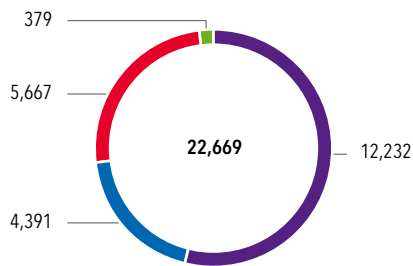
engineered products is examining the possibility of installing a photovoltaic plant at the Hessisch-Lichtenau site. In the event of a favourable assessment, the measure is to be implemented in the coming years. In addition, electric forklifts are already in operation, which avoid emissions based on the current sourcing of green power. Per million euros of revenue, the segment produces 147t CO₂e (down 22% year on year).

The **flexible films** segment will also concentrate more on photovoltaics in the future. Emission-free green electricity is sourced. Transport optimisation is permitting further savings through efficient planning. As a result, the segment produced 65t CO₂e per million euros of revenue (up 12% year on year).

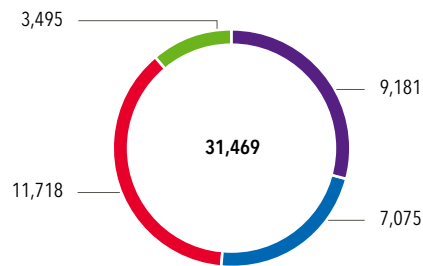
The **precision components** segment is making a big difference with the entity Gear Motion, where preparations are under way for the transition to e-mobility. The machinery and vehicle fleet is being electrified to the extent possible. Today, 30% is already electric. Charging stations were installed for the site to facilitate the use of electric company vehicles. To ensure that the associated electricity used has the lowest environmental impact possible, a photovoltaic project is already at the

CO₂ emissions in the segments¹

Scope 1 emissions in t CO₂e
(Direct emissions)



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



■ engineered products ■ flexible films ■ surface technologies ■ precision components

¹ Emissions for 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. It is not possible at present to record biogenic emissions.

concept development stage. The segment generates 85t of CO₂e per million euros of revenue (down 16% year on year). These and further measures by the segments have a significant influence on the KAP Group's greenhouse gas emissions as a whole, which totalled 125t CO₂e per million euros of revenue in 2022 (down 9% year on year).

Emissions by source

in t CO ₂ e	2022	2021	Change (%)
Scope 1 (total)	22,669	22,367	1.4
Heating oil/diesel/gasoline	4,782	4,054	18.0
Natural gas	17,887	18,312	-2.3
Scope 2 (total)	31,469	30,533	3.1
Electricity	31,424	30,505	3.0
District heating	45	29	58.3
Total	54,139	52,900	2.3

In 2022, greenhouse gas emissions amounted to 54,139t of CO₂ equivalents in scope 1 and scope 2. By contrast to the trend in energy consumption, emissions rose by 2.3% compared with the previous year. KAP's segments produce emissions in all three scopes defined in the Greenhouse Gas (GHG) Protocol. The main reason is the increased use of diesel instead of natural gas to generate heat for the production processes. The emissions in the segments of KAP fall in all three scopes as defined by the GHG Protocol. Electricity procurement and own heat generation are by far the largest emission sources of KAP, which is attributable to the energy-intensive production processes. The **engineered products** segment produces the greatest volume of emissions as a result of the segment's size. 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.

With respect to 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 2025 ESG Strategy, 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 COVID-19 pandemic is no longer as significant as in the previous year but must also be taken into account when assessing data for the 2022 financial year.

EU taxonomy

Managing the flow of funds into sustainable investments is a core element of the European Union's Green Deal. To this end, the EU has developed a classification system for economic activities, which is intended to help investors assess whether investments are sustainable and meet specified environmental or social standards. Within the framework of the EU Taxonomy Regulation (Regulation (EU) 2020/852), six environmental objectives have been defined:

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use of water
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection of biodiversity and ecosystems

At present, requirements governing sustainable economic activities are merely in place for two environmental objectives: climate change mitigation and climate change adaptation. An economic activity is assessed on the basis of a two-step analysis for eligibility and alignment. To determine alignment, it is necessary to assess for each activity, with respect to each objective of the EU taxonomy, whether a substantial contribution is made without doing significant harm (DNSH) with respect to the other objectives. In addition, minimum standards for occupational safety and human rights (minimum safeguards) must be ensured for each activity.

Companies that fall within the scope of the EU taxonomy are subject to certain reporting requirements. A 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 as well as the proportion of operating expenses related to assets or processes associated with economic activities that qualify as environmentally sustainable.

KAP AG provided information on the taxonomy eligibility of its economic activities for the first time for the 2021 reporting year. We took the opportunity to report exclusively on taxonomy-eligible activities in the context of the “climate change mitigation” and “climate change adaptation” objectives. The corresponding shares of revenue, capital expenditures and operating expenses as well as explanations of the underlying calculation processes are shown in aggregated form, i.e. without differentiation according to the relevant economic activities.

For the 2022 reporting year, the economic activities and resulting revenue, capital expenditure and operating expenses were analysed again and assessed in terms of which portions can be classified as taxonomy-eligible. Double counting was avoided by clearly allocating the taxonomy-eligible revenue, capital expenditure and operating expenses 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.

Taking into account materiality criteria, the following economic activities were identified by KAP as eligible for the taxonomy:

- 3.3 Manufacture of low carbon technologies for transport
- 3.5 Manufacture of energy-efficient equipment for buildings
- 3.17 Manufacture of plastics in primary form
- 8.1 Data processing, hosting and related activities

The KPIs for the taxonomy-eligible revenue, capital expenditure (CapEx) and operating expenses (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.

As of the 2022 reporting year, KAP AG is also required to assess the taxonomy alignment of its economic activities, in other words to analyse whether they make a significant contribution to achieving one or more environmental objectives without doing significant harm (DNSH) to other environmental objectives and whether they are carried out in accordance with minimum social protection. Due to the complex procedures for determining the taxonomy-alignment of economic activities, we report taxonomy-aligned revenue, capital expenditures and operating expenses at €0 for the 2022 reporting year. For the 2023 reporting year, we intend to report taxonomy-aligned revenue, capital expenditures and operating expenses.

Taxonomy-eligible proportion of economic activity

in € million	2022
Revenue	433.5
thereof taxonomy-eligible	49.9
%	11.5
CapEx	30.0
thereof taxonomy-eligible	4.2
%	14.0
OpEx	64.6
thereof taxonomy-eligible	0.7
%	1.1

WASTE AND HAZARDOUS SUBSTANCES

GRI 3-3, 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. In the interest of a sustainable circular economy, we seek to produce as little waste as possible and consider the recyclability of our products right from the product development stage.

Our waste management applies a circular approach based on the principle of “reduce, reuse, recycle”. Where possible, waste is directed to recycling or, if it is not recyclable, it is disposed of correctly. The different KAP segments produce various types and volumes of waste, depending on their production processes. For

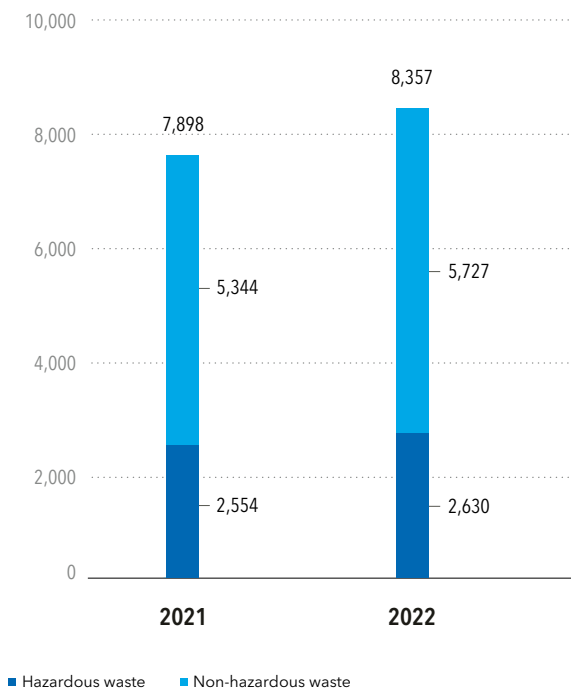
manufacturing segments such as **engineered products**, the principle of reuse, recycle and dispose of is applied to waste production materials such as metals and plastics, wood and chemicals as well as packaging. At **surface technologies**, by contrast, the waste products are mainly electroplating sludge and coatings.

This means that waste management in the segments have a different focus and involve different activities. One issue at **flexible films**, for example, is to reduce the use of oil-based plastics and develop internal recycling plants, whereas in the **surface technologies** segment it is vital to take special care when disposing of hazardous substances. Waste management in all segments is significantly influenced by the individual customers.

In addition to targets for the individual entities and sites, we have also set waste and recycling goals as part of the KAP 2025 ESG Strategy:

1. Expand waste management and identify primary waste types
2. Expand recycling at KAP
3. Sustainable use of raw materials and packaging at KAP and its customers

Waste volume by category (in t)



Management approach

The material topic of “waste and hazardous substances” is also dealt with in the context of environmental management and as described above. The ESG panel regularly reviews progress. Preparatory and conceptual work is carried out at Group level by the environmental steering committee and the sustainability manager. Operational responsibility lies with the segments and companies and the persons in charge there.

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

At many companies, waste management is governed by the ISO 14001 management system. Various pertinent guidelines are particularly important in this context, including legal and waste registers and waste management policies, as well as instructions for operations and processes that are often derived from ISO 14001. Regular internal and external ISO 14001 audits are performed at many sites.

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

- Metric tonnes of waste per € million of revenue (2022: 19.3t/€ million; down 6% year on year)
- Metric tonnes of waste per tonne of material used (2022: 0.075t/t; down 4% year on year)*

* Excluding the **surface technologies** segment, as the production volume cannot be calculated in metric tonnes.

Improving waste management

Waste generated at KAP sites is generally separated by type of waste (non-hazardous/hazardous) and by disposal category. Potential for improvement is identified and implemented at segment and company site level. This and other measures, such as strict checks of scrap material at many sites, the deployment of state-of-the-art technologies, systems for reusing products and the optimisation of processes, enable us to continuously reduce the volume of waste. Various segments, such as **engineered products**, conduct life cycle analyses (LCA) for customers to measure the impact of KAP products.

Waste volume by category

in t/year	2022	2021	Change (%)
Hazardous waste	2,630	2,554	3.0
Non-hazardous waste	5,727	5,344	7.2
Total	8,357	7,898	5.8

No further breakdown by subgrouping/recycling etc. possible, as this is not scheduled as part of the reporting until 2023.

Waste management also includes the specific waste treatment, particularly for hazardous substances. For this reason we have defined the measure of 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.

Waste 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 “product safety/product responsibility” section. The segment recorded 4,315 metric tonnes of waste in 2022.

We will achieve our aim of expanding recycling at KAP by sensitising and training our employees and encouraging their sense of responsibility. In order to make an active contribution to recycling, we intend to set up and use our own recycling facility in the **flexible films** segment at the Coswig site (Germany) in 2023. In the **flexible films** segment, we already use a recycling facility at the entity Reflex Film and rely on external recycling providers at the entities AerO Coated Fabrics, CaPlast and Elbtal Plastics. At the entity Steinweg Kunststofffolien, we reuse waste to a large extent in a separate cycle. Further progress was made in 2022 towards the segment target of reducing the volume of packaging by 25% by 2025. The segment reported a total of 2236 metric tonnes of waste in 2022. The volume of waste thus decreased by 4.6% compared with the previous year.

The **precision components** segment has likewise set internal waste management targets: it aims to reduce waste volumes by 2% per year overall, to increase the effectiveness of waste collection and separation and to reach an annual waste recovery rate of more than 90%. Gear Motion in Ehingen (Germany) already achieved this waste recovery rate in 2020. The segment’s Bebusch Hungária site achieved the target in 2022. The segment generated 451 metric tonnes of waste in 2022, up 4% on 2021.

The third strategic goal relating to “waste and hazardous waste” determines that raw materials and packaging are to be used sustainably by KAP and its customers. Three measures are intended to contribute to this end. Firstly, starting in the reporting year, we give preference to reusable or recyclable packaging to the extent possible and practical. The **engineered products** segment provides a good example: reusable packaging is already in use at its site in Hessisch-Lichtenau. Options for using recyclable packaging are continuously reviewed. Our aim is to feed as much waste as possible back into our materials cycle and thereby increase our recycling rate. The **engineered products** segment generated 1,355 metrics tonnes of waste in 2022.

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

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

CUSTOMERS AND PRODUCTS

OFFERING SAFE AND INNOVATIVE PRODUCTS

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.

In the “customers and products” field of action, our materiality analysis identified the material topics of “product safety/product responsibility” and “sustainable innovation”.

PRODUCT SAFETY/PRODUCT RESPONSIBILITY

GRI 3-3, 416-1, 416-2

Safety, quality and environmentally friendliness in the manufacturing process 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 so we can serve as a reliable partner. We want to set standards in the fields in which our segments are active. We are responsible not only for the quality of our products and technology solutions, but also for their environmental credentials. With our portfolio, we want to do our part to make industrial activity 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.

KAP AG’s four segments are set up very differently. For a detailed description of the different areas of operation, we refer to the “About KAP” introductory section.

The plethora of different products, services and processes are developed, designed and implemented in the KAP segments and companies. In addition to targets for the individual entities and company sites, we have also set targets for the area of “customers and products” as part of the KAP 2025 ESG Strategy:

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

Management approach

Always setting the highest standards in terms of quality and safety are the basis of our long-term commercial success. That’s why the management teams in our segments bear the main responsibility for the quality and safety of our products, processes and services.

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

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

In the **flexible films** segment, responsibility is assigned to the head of business development. Both here and in the **precision components** segment, there are additionally representatives at entity level.

In all segments, the product managers or the project managers are responsible for operational quality assurance, ensuring safety 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 company sites have certified management systems. All sites in the **engineered products** segment are certified under IATF 16949, apart from one, and all are certified under ISO 9001 (quality management). All sites in **precision components** are certified according to IATF 16949, which includes ISO 9001. The **surface technologies** segment also has IATF certification, apart from two sites which are certified in accordance with ISO 9001. Almost 67% of the **flexible films** sites are certified under ISO 9001.

The environmental and energy management systems ISO 14001 and ISO 50001 also have a significant influence on product development and innovation. In the **engineered products** segment, for example, production technologies are being developed with the aim of reducing carbon footprint.

Developments in the area of “product safety/product responsibility” are also monitored using the KPI “percentage coverage of production sites with certified quality management system” (2022: 85.7%).

High quality and safety standards

In 2022, we achieved our primary strategic goal of always ensuring the best possible quality management process by appointing plant managers in all the relevant segments as product safety and conformity representatives (PSCRs). Quality management also entails obtaining feedback. The segments regularly assess customer satisfaction for this purpose, including in connection with the IATF 16949 certification. In addition, there is a wealth of guidelines and audit requirements in the segments, such as for managing substances of very high concern (SVHC) in the **engineered products** segment, resulting from the European Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).

Moreover, numerous production and verification instructions are in place, along with PSCR process instructions and specifications, and processes resulting from customer requirements. In the **flexible films** segment, for instance, the topic of “product safety/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 was achieved in 2022 by means of two measures: in addition to appointing plant managers as PSCRs, the analysis of high-risk services was expanded and now largely takes place in the segments. Within the **engineered products** segment, 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 safety and control measures to guarantee product safety. In addition to the policies, standards and instructions mentioned, regular processes are key: they include inspection of materials on delivery, precisely defined processes based on safety data sheets and process audits, product approval for processes and product specifications from our customers, as well as final quality assurance 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. With regard to cooperation with our partners, we also implement checks and inspections, and we only work with certified and independently audited suppliers. For more information, also see the “supply chain” section. The high quality and durability of our products means that we can also ensure their safety in use after they have been installed.

SUSTAINABLE INNOVATION

GRI 3-3

Management approach

In recent years, innovative capability and continuous investment in research and development have proven key determinants of economic success for companies. Remaining innovative while ensuring sustainable activities is likewise the basis of the KAP Group’s long-term business success. Various influencing factors form the wellspring of innovation in our Company, including emerging key technologies, changes in demand for sustainable products or the replacement of substances of potential concern in products, for instance.

Innovation processes are managed and implemented locally at segment and subsidiary level. Accordingly, the management teams at segment level bear the main responsibility for ensuring our products, processes and services are state of the art and safe. In many companies of the segments, sustainable innovations are developed in close cooperation with customers. In the **engineered products** segment, for example, customers impose requirements with respect to new sustainable raw materials. Here, in addition to the head of sales, the head of innovation is also responsible for the process for sustainable innovations.

The systematic management of sustainable innovations as an integral part of our KAP 2025 ESG Strategy is being further developed. We gauge the sustainability of our innovations and products in terms of minimising our carbon footprint. In future, we want to make our progress in sustainable innovations measurable.

Environmentally friendly products and processes

One 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 environmentally friendly input materials and continuously analyse opportunities for replacing hazardous 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 and the “Energy efficiency made in Germany” initiative, for example. The segments also work with their customers on other, measurable progress with continuously improving their ecological footprint – for example through external evaluation by the EcoVadis ratings platform.

Environmental impact is becoming increasingly important in the **flexible films** segment. Of central importance in this context is increasing the extent to which products can be reused and recycled. Product solutions are being 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 for example, the segment products make a significant contribution towards avoiding energy losses and protecting buildings from moisture and health hazards.

Technical textiles, which are important for the **engineered products** segment, offer 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 on an ongoing basis, 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. Furthermore, the aim is to use less natural gas in manufacturing products in future through innovative processes and to generate electricity for production processes using photovoltaic panels.

The **precision components** segment has special lighthouse projects at its individual sites. Many of them are related to environmental aspects. They include the integration of extra sealant checks in ongoing processes, which avoids leaks, for example, 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 develops processes rather than products in a strict sense. By making these processes environmentally friendly – for instance by saving large quantities of water, reducing the amount of chemicals used or saving energy – we help our customers make their production environmentally friendly. A key lever is the substitution of pollutants and process media.

SUPPLY CHAIN

MAKING VALUE CREATION SUSTAINABLE

KAP is accountable for its own entrepreneurial actions. In addition to considering our own impact, we also take into account the positive and negative impacts that our business activities cause in the supply chain. A differentiated approach is needed when analysing the supply chain in the various segments. One thing they all have in common is that the segments aim to forge long-term business relationships with their suppliers. In addition, all segments are highly dependent on customer requirements when purchasing raw materials and products.

There is a wide variation with regard to the main goods purchased. Depending on the segment, production materials typically sourced include yarn, steel, granules and substrates, chemicals, additives and paints.

Although no material topic was identified in the “supply chain” field of action, we have nevertheless decided to continue reporting on this topic area, partly on account of the German Act on Corporate Due Diligence Obligations in Supply Chains (LkSG), which will be effective for KAP starting on 1 January 2024.

HUMAN RIGHTS

Corporate supply chains are increasingly coming under the scrutiny of sustainability campaigners and policy-makers. As can be seen in the German Act on Corporate Due Diligence in Supply Chains (LkSG), respect for human rights is the most important element of this trend. Without exception, business operations must be premised on compliance with human rights. As set forth by resolution of the United Nations, this also includes environmental aspects, on the grounds that a clean environment is a human right.

Accordingly, 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 labour standards of the International Labour Organization (ILO), the UN Guiding Principles on Business and Human Rights, and the universal values of the UN Global Compact. We have been a member of the UN Global Compact since November 2022 and will report regularly on the implementation of the ten underlying principles. We reject all forms of modern slavery: child labour, forced and bonded labour, human trafficking and coercion in employment. Freedom of association and the right to collective bargaining must not be restricted.

As part of our strategy, we have developed a goal in the “human rights” area which is to be implemented using a wide range of measures in the coming years: we will demand that occupational health and safety as well as human rights be respected in our supply chain.

Management approach

The ESG panel is responsible for the Company’s strategic orientation with regard to the supply chain and human rights. One of the steering committees that drafts proposals for the ESG panel and develops 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 head of purchasing. He monitors the segment’s main suppliers of raw materials and chemicals. Deliveries of the resources and products purchased are called by the purchasing function at the individual plants.

The **surface technologies** segment organises its purchase of energy and capital expenditure on new facilities at segment level. As a rule, the remaining purchasing process is the responsibility of the sites. Individual executives refer to process descriptions, operating instructions and order forms in this context.

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.

The **flexible films** segment 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. KAP AG already introduced the roles of PSCRs and quality management process officers in all relevant locations throughout the Group in 2022.

The supply chain/human rights steering committee tracks the status quo and progress in this topic area by means of various KPIs. One of the most important indicators is the share of suppliers (A suppliers) that have acknowledged the Supplier Code of Conduct in each segment. If our main suppliers have their own code of conduct, it is 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 removed from the list.

Responsibility in the supply chain

To fulfil our duty of care with respect to the environment and human rights, we will evaluate our global supply and value chains in terms of sustainability aspects in even greater detail in the future, with reference to the requirements of the German Act on Corporate Due

Diligence Obligations in Supply Chains, which will apply to KAP AG as of 1 January 2024, to minimise any risks and live up to our corporate responsibility. We intend to take appropriate measures in the financial year to advance our strategic goal of demanding that occupational health and safety and human rights be respected in the supply chain and to ensure compliance with legal requirements. Specifically, the legal requirements include defining responsibilities, such as by appointing a human rights officer, adopting a policy statement for the Company’s human rights strategy, setting up a grievance mechanism for recording breaches of the law and a risk management system including risk analysis, and anchoring preventive and remedial measures in the event of breaches of the law. In addition, affected companies are subject to a documentation and annual reporting obligation to the responsible Federal Office of Economics and Export Control (BAFA).

Early on, when contracts are concluded, our Supplier Code of Conduct is submitted for signing or at least acknowledgement. It forms the basis for the purchasing process in all segments. Our Supplier Code of Conduct conveys to our partners KAP’s guiding principles with respect to 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. With the implementation of the corporate due diligence obligations in supply chains as of 1 January 2024, we want to standardise this practice throughout the Group and make it more measurable.

The code includes clauses on human rights, working conditions, environmental protection and anti-corruption and bribery. The segments can expand or specify the Supplier Code of Conduct at their discretion, on condition that they observe the minimum standards defined in the KAP Supplier Code of Conduct. Accordingly, the **engineered products** segment has produced its own document with more detailed stipulations concerning the environment, energy and resources.

Screenings and audits

Before entering into new relationships, business partners are subjected to a business partner due diligence process, which includes ethical and compliance-relevant aspects of the business partners as well as sustainability matters such as certifications or ecological packaging. This is based on our KAP business partner screening policy. A sanction compliance software tool that checks the prospective partner against sanction lists is one of the means used to implement the policy. A whistleblower system is also in place that is available to our business partners as well as to KAP employees. This system can be accessed globally and also used to report human rights violations. No material topics were reported by business partners or suppliers in 2022. The right to carry out audits covering human rights aspects was only exercised in isolated cases in the past.

Starting in 2023, the screening of our suppliers and the business partner due diligence process is to be further specified in line with the requirements of the German Act on Corporate Due Diligence Obligations in Supply Chains, which will apply to KAP AG as of 1 January 2024. To this end, the policy is still being revised and, among other things, a standard process will be introduced with regular risk management, including risk analysis, and anchoring preventive and remedial measures in the event of a breach of the law in the supply chain.

The KAP 2025 ESG Strategy provides for additional supplier audits to be introduced in initial segments using the EcoVadis sustainability rating. As well as auditing suppliers, EcoVadis also offers an audit of a company's internal processes. We intend to evaluate extending the scope of EcoVadis audits to include KAP itself in 2023. We want to build on the good results achieved by some of the companies. This includes the EcoVadis gold status of Mehler Engineered Products in the **engineered products** segment and CaPlast's platinum status in the **flexible films** segment. The segment entity CaPlast ranks among the top 4% of all companies rated by EcoVadis.

ABOUT THIS REPORT

REPORT PROFILE

GRI 2-2, 2-3, 3-2

With this report, we are publishing our separate non-financial group report (hereinafter: non-financial report) in accordance with the German Commercial Code (HGB), thus fulfilling the requirements of the German CSR Directive Implementation Act at Company and Group level pursuant to sections 315b and c 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, human rights respect and anti-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 topics. The information on taxonomy-eligible and taxonomy-aligned revenue, capital expenditure and operating expenses in line with the EU Taxonomy Regulation is presented on from page 25 onwards.

The reporting period corresponds to the calendar year; the non-financial report describes the status as of the end of the respective financial year. When appropriate, we describe developments at the beginning of the current year. Unless otherwise indicated, all data in the report pertains to both KAP AG and the Group.

We exercise the option allowed by the German CSR Directive Implementation Act (CSR-RUG) to report in accordance with a framework. This report has been prepared in accordance with the GRI Standards of the Global Reporting Initiative (GRI).

In the course of developing the KAP 2025 ESG Strategy, 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 for understanding the Group's business development, performance and position and its impacts on non-financial matters. The KAP Group's operating segments are exposed 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 applying a prospective approach. For additional information about risk management within the KAP Group, please see the group management report in the 2022 Annual Report.

An evaluation of risks on a net basis in accordance with the requirements of the German CSR Directive Implementation Act, no risks were identified that are highly likely to cause serious adverse impacts on the aspects or our material topics now or in the future.

No direct connection was identified between the amounts disclosed in the annual financial statements under section 289c (3) no. 6 HGB and the non-financial matters.

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

GRI CONTENT INDEX

GRI 1: Foundation 2021

KAP AG has reported the information cited in this GRI content index for the period from 1 January to 31 December 2022 with reference to the GRI Standards.

GRI Standard/ Other sources	Disclosure	Location	Omission	
			Reasons	Explanation
General Disclosures				
	2-1 Organizational details	p. 1		
	2-2 Entities included in the organization's sustainability reporting	p. 35		
	2-3 Reporting period, frequency and contact point	p. 35, 41		
	2-4 Restatements of information	p. 35		
	2-5 External assurance	p. 7		
	2-6 Activities, value chain and other business relationships	p. 1, 32–33		
	2-7 Employees	p. 13–15		
	2-8 Workers who are not employees	p. 13	Information not available/incomplete	Information not fully collected
	2-9 Governance structure and composition	p. 5–9; see annual report 2022		
	2-10 Nomination and selection of the highest governance body	see annual report 2022		
GRI 2: General Disclosures 2021	2-11 Chair of the highest governance body	see annual report 2022		
	2-12 Role of the highest governance body in overseeing the management of impacts	p. 5–10		
	2-13 Delegation of responsibility for managing impacts	p. 5, 8–9		
	2-14 Role of the highest governance body in sustainability reporting	p. 5, 8–9		
	2-15 Conflicts of interest	p. 7, 10; see annual report 2022		
	2-16 Communication of critical concerns	p. 8, 11		
	2-17 Collective knowledge of the highest governance body	p. 16–17		
	2-18 Evaluation of the performance of the highest governance body	p. 5–6		
	2-19 Remuneration policies	see annual report 2022 and our website		

GRI Standard/ Other sources	Disclosure	Location	Omission	
			Reasons	Explanation
GRI 2: General Disclosures 2021	2-20 Process to determine remuneration	see annual report 2022		
	2-21 Annual total compensation ratio	see remuneration report 2022		
	2-22 Statement on sustainable development strategy	p. 2, 4–5		
	2-23 Policy commitments	p. 2, 8–12, 32–33, 35		
	2-24 Embedding policy commitments	p. 8–12		
	2-25 Processes to remediate negative impacts	p. 10–12		
	2-26 Mechanisms for seeking advice and raising concerns	p. 7, 11		
	2-27 Compliance with laws and regulations	p. 11		
	2-28 Membership associations	/	Information not available/incomplete	Information not fully collected
	2-29 Approach to stakeholder engagement	p. 2, 7		
2-30 Collective bargaining agreements	p. 15/16			
Material Topics				
GRI 3: Material Topics 2021	3-1 Process to determine material topics	p. 2		
	3-2 List of material topics	p. 2–4		
Corporate Governance				
Conduct in compliance with laws and directives				
GRI 3: Material Topics 2021	3-3 Management of material topics	p. 2–6, p. 8–9		
	205-1 Operations assessed for risks related to corruption	p. 11/12		
GRI 205: Anti-corruption 2016	205-2 Communication and training about anti-corruption policies and procedures	p. 10–11		
	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	p. 11		
GRI 206: Anti-competitive Behavior 2016	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	p. 11		
Data protection and information security				
GRI 3: Material Topics 2021	3-3 Management of material topics	p. 2–6, p. 12		
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	/	Not applicable	No complaints received

GRI Standard/ Other sources	Disclosure	Location	Omission	
			Reasons	Explanation
Employees				
Labour/management relations				
GRI 3: Material Topics 2021	3-3 Management of material topics	p. 2–6, p. 14		
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	p. 14–15		
GRI 402: Labor/ Management Relations 2016	402-1 Minimum notice periods regarding operational changes	/	Not applicable	Is managed at the level of the respective companies
GRI 405: Diversity and equal opportunity 2016	405-1 Diversity of governance bodies and employees	p. 14–15; see CV Website		
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	p.14–15		
Labor market				
GRI 3: Material Topics 2021	3-3 Management of material topics	p. 2–6, p. 16		
	404-1 Average hours of training per year per employee	p. 16–17		
GRI 404: Training and Education 2016	404-2 Programs for upgrading employee skills and transition assistance programs	p. 16–17		
	404-3 Percentage of employees receiving regular performance and career development reviews	p. 17		
Health and safety at workplace				
GRI 3: Material Topics 2021	3-3 Management of material topics	p. 2–6, p. 18		
	403-1 Occupational health and safety management system	p. 18		
	403-2 Hazard identification, risk assessment, and incident investigation	p. 11–12, p. 18–19		
GRI 3: Material Topics 2021	403-3 Occupational health services	p. 18–19		
	403-4 Worker participation, consultation, and communication on occupational health and safety	/	Not applicable	Part of the corporate suggestion scheme

GRI Standard/ Other sources	Disclosure	Location	Omission	
			Reasons	Explanation
GRI 3: Material Topics 2021	403-5 Worker training on occupational health and safety	p. 18–19		
	403-6 Promotion of worker health	p. 19		
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	p. 18–19		
	403-8 Workers covered by an occupational health and safety management system	p. 18–19		
Environment				
Energy and emissions				
GRI 3: Material Topics 2021	3-3 Management of material topics	p. 2–6, p. 20–21		
GRI 302: Energy 2016	302-1 Energy consumption within the organization	p. 20–22		
	302-3 Energy intensity	p. 21–23		
	302-4 Reduction of energy consumption	p. 22–23		
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	p. 24–25		
	305-2 Energy indirect (Scope 2) GHG emissions	p. 24–25		
	305-3 Other indirect (Scope 3) GHG emissions	p. 25	Information not available/incomplete	Comprehensive measurement and analyses of Scope 3 Emissions from 2023
	305-4 GHG emissions intensity	p. 21, 24–25		
	305-5 Reduction of GHG emissions	p. 24–25		
Climate risks and chances				
GRI 3: Material Topics 2021	3-3 Management of material topics	p. 2–6, p. 20, p.23		
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	p. 26; see annual report 2022		
	201-2 Financial implications and other risks and opportunities due to climate change	p. 25		
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	p. 24–25		
	305-2 Energy indirect (Scope 2) GHG emissions	p. 24–25		
	305-3 Other indirect (Scope 3) GHG emissions	p. 25	Information not available/incomplete	Comprehensive measurement and analyses of Scope 3 Emissions from 2023
	305-4 GHG emissions intensity	p. 21, p. 24–25		
	305-5 Reduction of GHG emissions	p. 24–25		

GRI Standard/ Other sources	Disclosure	Location	Omission	
			Reasons	Explanation
Waste				
GRI 3: Material Topics 2021	3-3 Management of material topics	p. 2–6, p. 27		
	306-1 Waste generation and significant waste-related impacts	p. 27–28		
	306-2 Management of significant waste-related impacts	p. 26–27		
GRI 306: Waste 2020	306-3 Waste generated	p. 27–28	Information not available/incomplete	Is not recorded on an aggregated basis at the level of the individual company
	Customer health and safety			
Product Safety/Product Responsibility				
GRI 3: Material Topics 2021	3-3 Management of material topics	p. 2–6, p. 29		
	416-1 Assessment of the health and safety impacts of product and service categories	/	Information not available/incomplete	Is recorded at the individual company level
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	/	Information not available/incomplete	Is recorded at the individual company level
Sustainable Innovation				
GRI 3: Material Topics 2021	3-3 Management of material topics	p. 2–6, p. 30		



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