# Engineering Excellence

2021 Annual Report

kap

# KAP – ENGINEERING EXCELLENCE

We are a mid-sized industrial holding company. Our strategic focus is on profitable segments in attractive markets with sustainable growth potential. With our long-term segment strategy, we systematically drive forward the establishment and development of high-margin industry sectors into market leaders. We offer an optimal mix of the flexibility of a mid-sized company and the economies of scale of an international listed group. This benefits our segment companies, our customers and our shareholders.

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# KEY FIGURES

**Selected key figures**

| | | 2021 | 2020 | Change (%) |
|---|---|---|---|---|
| **Group**[1] | | | | |
| Revenue | € millions | 345.6 | 322.7 | 7.1 |
| Normalised EBITDA | € millions | 35.0 | 30.4 | 15.0 |
| Normalised EBITDA margin | % | 10.1 | 9.4 | 0.7 PP |
| Consolidated annual result after taxes | € millions | 39.9 | –2.7 | > 100 |
| Earnings per share | € | 5.14 | –0.35 | > 100 |
| | | | | |
| Investments | € millions | 31.6 | 21.4 | 47.7 |
| Depreciation, amortisation and impairments | € millions | 25.2 | 30.0 | –16.0 |
| | | | | |
| Cash flow from operating activities | € millions | 8.3 | 55.2 | –85.0 |
| | | | | |
| Non-current assets | € millions | 214.7 | 185.2 | 15.9 |
| Current assets | € millions | 126.9 | 112.7 | 12.6 |
| Equity | € millions | 182.7 | 154.4 | 18.3 |
| Equity ratio | % | 53.4 | 49.3 | 4.1 PP |
| Non-current liabilities | € millions | 49.9 | 84.0 | –40.6 |
| Current liabilities | € millions | 109.5 | 69.8 | 56.8 |
| Employees | | 2,632 | 2,736 | –3.8 |
| | | | | |
| **AG** | | | | |
| Net profit for the year | € millions | 59.5 | –0.9 | >100 |
| Total dividend payout[2] | € millions | 7.7 | 13.6 | –43.4 |
| Number of shares (31/12) | | 7,767,563 | 7,760,353 | 0.1 |
| Dividend per share[2] | € | 1.00 | 1.75 | –42.9 |

[1] Excluding discontinued operations.
[2] Proposal for the distribution of the retained earnings.

# OUR SEGMENTS

## FLEXIBLE FILMS

| | | 2021 | 2020 | Change (%) |
|---|---|---|---|---|
| Revenue | € millions | 128.4 | 100.1 | 28.3 |
| Normalised EBITDA | € millions | 18.2 | 14.8 | 23.0 |
| EBITDA margin[1] | % | 14.2 | 14.8 | –0.6 PP |
| Employees | | 375 | 321 | 16.8 |

[1] Normalised EBITDA/revenue.

In the flexible films segment, we are one of the leading specialists in extrusion coatings, calendering and the conditioning of coated products in Europe and a market leader in membranes, tarpaulins, swimming pool liners and high-end projection screens. Our product portfolio includes system solutions for energy-efficient construction, semifinished products for medical applications and high-quality membranes for swimming pool construction.

## ENGINEERED PRODUCTS

| | | 2021 | 2020 | Change (%) |
|---|---|---|---|---|
| Revenue | € millions | 118.0 | 127.0 | –7.1 |
| Normalised EBITDA | € millions | 7.6 | 4.4 | 72.7 |
| EBITDA margin[1] | % | 6.4 | 3.5 | 2.9 PP |
| Employees | | 815 | 870 | –6.3 |

[1] Normalised EBITDA/revenue.

In the engineered products segment, KAP is a market leader and develops, produces and sells technical fabrics and yarns with chemical and physical conditioning that provide the characteristic performance of our customers' products all over the world. Our solutions are essential for the specific areas of application of our customers from, for example, the agricultural sector, road and rail transport, and the oil and gas industry.

## SURFACE TECHNOLOGIES

| | | 2021 | 2020 | Change (%) |
|---|---|---|---|---|
| Revenue | € millions | 57.6 | 53.5 | 7.7 |
| Normalised EBITDA | € millions | 10.4 | 10.2 | 2.0 |
| EBITDA margin[1] | % | 18.0 | 19.1 | –1.1 PP |
| Employees | | 750 | 769 | –2.5 |

[1] Normalised EBITDA/revenue.

In the surface technologies segment, we carry out highly specialised surface processes for refining metallic materials such as 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 and are one of the leading providers in various end markets, such as in the automotive industry, mechanical engineering and the furniture industry.

## PRECISION COMPONENTS

| | | 2021 | 2020 | Change (%) |
|---|---|---|---|---|
| Revenue | € millions | 38.8 | 39.6 | –2.0 |
| Normalised EBITDA | € millions | 1.6 | 1.9 | –15.8 |
| EBITDA margin[1] | % | 4.1 | 4.8 | –0.7 PP |
| Employees | | 636 | 617 | 3.1 |

[1] Normalised EBITDA/revenue.

In the precision components segment, we are one of Europe's leading high-tech manufacturers of precision components. We develop tailor-made solutions particularly for special electric and electromechanical drives on the basis of plastics or plastic-metal compounds. Our high-precision products are used in diverse application areas – including in cars, e-bike drives and electrical equipment.

# LETTER TO OUR SHAREHOLDERS

## DEAR SHAREHOLDERS,

2021 was another challenging year with highly volatile market conditions. We again proved that we can also achieve good results in a turbulent market environment. The encouraging business performance in the first half of the year meant that we started the second half of the year stronger. The recovery trend was unfortunately curbed as a result, in particular, of the considerable disruptions in global supply chains then emerging. Thus, the consequences of the coronavirus pandemic were a major influencing factor, particularly for our activities in the automotive sector.

Nevertheless, the KAP Group's business performed better overall in the 2021 financial year than in the previous year. Despite the gloomy market environment in the second half of the year, our continuing operations generated consolidated revenue of €345.6 million, and thus 7.1% more than the previous year. Normalised EBITDA in fact rose by 15.0% to €35.0 million. We thus achieved the annual forecast for revenue and earnings, which was raised in August 2021. Our most important operating earnings indicator, the normalised EBITDA margin, increased by 0.7 percentage points to 10.1% and was thus higher than the target of 10.0%.

"In 2021, we again proved that we can also reliably deliver in a turbulent market environment."

ECKEHARD FORBERICH
Member and Spokesman of the Management Board

The crisis resistance shown by the KAP Group is mainly due to the restructuring measures already implemented and the diversified positioning of our segments, which have an excellent market position in their respective niche markets. In the engineered products segment, the production capacity was reduced as planned compared with 2020 and revenue fell accordingly. The surface technologies and precision components segments, which are more strongly focused on the automotive sector, were affected mainly in the second half of the year by dynamic market developments and disruptions to global supply chains. The flexible films segment, by contrast, remained on its strong growth course and continued to benefit from high customer demand for special solutions in the construction sector and swimming pool liners. The KAP Group's segment companies were able to pass the significant price increases on the procurement side on to customers with a time lag.

We are particularly proud of the fact that, in these challenging times, we continued to systematically implement our Accelerate strategy program faster than planned. In the following pages, we will tell you about the impressive milestones that we achieved in 2021. We have made the KAP Group even more future-oriented through sales of non-core assets, selected acquisitions and the construction of new production plants.

The positive free cash flow achieved despite high investments amounted to €26.7 million and reflected the KAP Group's solid financing situation, which gives us sufficient flexibility for the further implementation of the sustainable growth strategy. Despite the volatile environment, we would like to propose a dividend of €1 per share to our shareholders for the 2021 financial year at the Annual General Meeting. However, we will monitor developments in connection with the Russia-Ukraine war very closely and review the joint proposal by the Management Board and Supervisory Board before the Annual General Meeting.

We also made a lot of progress in the area of sustainability in 2021. For us, responsibility and integrity are the basis for the trust that our customers, our business partners, our employees, society and you, our shareholders, place in us. That is why we developed the new ESG Strategy 2025, with which we are pursuing the three overarching objectives of expanding our ESG organisation, expanding our sustainability reporting and expanding dialogue with our stakeholders in order to operate more sustainably and in a more socially conscious way as a business. Each of the 25 strategic sub-objectives is made concrete by measures that are assigned a time frame. The progress on each of these is measured using defined KPIs. You can read all about this in our separate non-financial Group report.

For 2022, we expect the KAP Group's business performance to be considerably impacted by the still dynamic market environment. The war that has broken out between Russia and Ukraine and its significant impact on the global economy will also continue to have a negative effect. Due to our diversified investment model and our segments' strong market positioning, we nevertheless expect a clear increase in the KAP Group's revenue compared with the previous year. We expect the operating result to be slightly higher than in the previous year. This assessment does not take account of the still unforeseeable significant future impact of the continuing coronavirus pandemic and the Russia-Ukraine war.

"In our ESG Strategy 2025, we've defined concrete targets and KPIs with which we measure our success."

MARTEN JULIUS
CFO

We are pleased to continue our sustainable growth strategy together with a highly qualified and very dedicated team. We would like to express our special thanks to all the KAP Group's employees for the great dedication they have shown in the Covid-19 pandemic, their high level of flexibility and their attentiveness. And we would like to thank you for the trust that you have placed in the KAP Group.

Best regards,

Eckehard Forberich
Member and Spokesman of the Management Board

Marten Julius
CFO

# MOVE FORWARD


2021 was a challenging year for the KAP Group. A year full of dynamism and uncertainties. But more importantly, a year full of drive and progress. As part of the Accelerate programme, we have successfully dealt with many topics. The transformation has accelerated and we have made remarkable progress. Below, we present our segments' impressive projects and future markets, which prove our strategic and operating success. And you will learn about our products, global locations and, in particular, our strong market position in attractive niche markets from our decision-makers.

### Increasing sales focus

- Segment-specific, customised development of the sales team
- Structured and focused sales initiatives for growth areas
- Roll-out of sales funnel tools developed in-house for managing enquiries, incoming orders and revenue recognition

### Increasing efficiency

- Increasing process and production efficiency through Lean management in selected locations
- Improvement of purchasing performance and use of materials to strengthen competitiveness
- Continuation of the systematic streamlining of administration and other processes

### Securing future prospects

- Development and operationalisation of segment-specific technology road maps
- Investments in technologies and production processes in close partnership with selected customers
- Strengthening personnel development measures

### Optimising financial leeway

- Sale of the subsidiary in the it/services segment and other relevant non-strategic assets
- Selective sale and leaseback transactions where sensible and profitable and opening up further financial leeway
- Accelerating consistent and efficient working capital management

### Focusing the portfolio

- Systematic withdrawal from sites with a permanently low gross profit margin
- Considerable streamlining of existing corporate and holding structures
- Reduction of manager-to-staff ratios through organisational merger of sites

### Expanding overarching risk management

- Further development of a forward-looking ERP and KPI landscape for the KAP Group at the same time as connection of relevant local branch applications
- Ongoing development of security and compliance measures
- Development of KAP in line with ESG criteria

# MILESTONES REACHED IN 2021

- Increasing the stake in packaging specialist NOW Contec to 100% (flexible films segment)
- Acquisition of AerO Coated Fabrics B.V. (AerO) to strengthen the extrusion coating expertise (flexible films segment)
- Start of construction of the world's most efficient and modern passivation plant for light metal components in Jasper, USA (surface technologies segment)
- Sale of the non-core-business companies MEHLER Engineering & Services and it-novum and sale of the commercial property in Fulda (it/services segment sold)
- Start of construction of a new production hall with new state-of-the-art production plant and laboratory in Hessisch Lichtenau, Germany (engineered products segment)
- Acquisition of Haogenplast, Israel, to strengthen vinyl expertise (flexible films segment)
- Expansion of the products for the e-bike market (precision components segment)

# Acceleration of growth through specialisation

flexible films

Revenue
**128.4**
**€ millions**

Normalised EBITDA
**18.2**
**€ millions**

Employees
**375**

In the 2021 financial year, all signs pointed to growth – both organic and inorganic. Organically, the segment primarily further expanded its market position in energy-efficient construction products. Successful acquisitions of specialist niche players with many years of experience in 2021 further accelerated growth and contributed to sustainably increasing revenue and operating profit in the flexible films segment. We used our strong position and opened up additional attractive niche markets where we have significant unique selling points.

# “Haogenplast is the perfect fit for us. The acquisition will expand our leading position in fabric-reinforced pool waterproofing membranes. Haogenplast's innovative product range will sustainably boost our profitable growth.”

FREDERIK SCHAEFER
Head of the flexible films segment

Overview of Haogenplast Ltd., established 1952

Following the acquisition of 78% of the Dutch extrusion company AerO Coated Fabrics, which we had already successfully completed at the start of the reporting year, we increased our stake in packaging specialist NOW Contec GmbH from 74% to 100%. At the start of 2022, KAP continued its successful M&A strategy with the acquisition of 100% of Israeli vinyl specialist Haogenplast Ltd.

Haogenplast manufactures plastic films for swimming pools, window laminates and industrial weatherproof roofing, which is primarily used in construction. The company has state-of-the-art calendering, printing and laminating technologies, which significantly improve surface finish and make participation in premium 3D designs possible.

ACCELERATE

Increasing efficiency

Securing future prospects

Additional information on page 38

KAP flexible films now has new options in the visual design of near-natural pools, particularly in the development of innovative 3D designs. There are no longer any limits on discerning customers' individual design requests.

At the same time, we have strengthened our strong position in the roofing market by additionally gaining fully developed flat roof solutions. The acquisition has also opened new doors for KAP: Haogenplast, for example, offers an extensive range of decorative films, which are used in the design of window profiles, among other uses.

There will also be numerous opportunities in the flexible films segment to expand its strong positions in profitable niche markets and grow sustainably in the future.

Revenue
**118.0**
**€ millions**

Normalised EBITDA
**7.6**
**€ millions**

Employees
**815**

# Sustainably securing the future

engineered products

Sustainability is the order of the day. Together with our customers, we are in a position to develop sustainable products and processes fit for the future and successfully bring these to market. To this end, we have successfully accelerated the transformation of the engineered products segment for the purpose of sustainably securing the future.

## “Our new, innovative production processes support our customers in improving their carbon footprint.”

THOMAS STARK
Head of the engineered products segment

**Ground-breaking ceremony for the construction of a new production hall with hybrid facility for technical yarns at the Hessisch Lichtenau site.**

### ACCELERATE

**Increasing efficiency**

**Securing future prospects**

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To strengthen our world-leading market position in technical textiles, we have previously invested around €3 million in modernising and expanding the Hessisch Lichtenau site. The official ground-breaking ceremony for the project was held in October. In addition to the new production hall extending over 2,700 square metres, the construction project includes a state-of-the-art production plant for technical yarns with a regenerative after-burning system.

The new hybrid high-speed plant can produce a variety of technical yarns in a ready-to-use process. The yarns are chiefly used for high-end applications such as air springs and coupling discs in automotive manufacturing. The innovative process significantly increases the customer's production efficiency. The use of critical chemicals prior to further processing of the technical yarns can also be avoided. This significantly improves the sustainable footprint of KAP AG's customers' products and thus the customers' carbon footprints.

A very attractive working environment with the highest safety standards awaits the KAP Group's employees. Moreover, KAP is creating additional jobs in the region around Hessisch Lichtenau. The production hall is on schedule for completion in the second quarter of 2022, meaning that the first samples are expected as early as the second half of 2022.

# Sweet home Alabama

surface technologies

| Revenue | Normalised EBITDA | Employees |
|---|---|---|
| 57.6 € millions | 10.4 € millions | 750 |

The construction of our new production site in Jasper, Alabama, USA, had the highest priority for us in the 2021 financial year. The KAP Group built the new site primarily for its anchor customer Mercedes-Benz and has so far invested around €13 million in state-of-the-art plant engineering for it. The new etching and passivation plant meets the highest environmental and quality standards and is the largest of its kind in the US.

"The unbelievably quick and efficient construction of our new site in Alabama shows that our customers can rely on us 100%."

NICOLAI A.J. BAUM
Head of the surface technologies segment

**Acceptance of the new plant by the head of the KAP Surface Holding segment**

In the automotive sector, the topic of lightweight construction is becoming increasingly relevant, particularly in the development of efficient e-vehicles. The pre-treatment of aluminium components through special etching passivation or washing processes is essential for the downstream production steps such as welding, bonding and coating. With its various processes, the surface technologies segment optimally meets customers' requirements for first-class preparation of aluminium surfaces – and all that on a just-in-time basis.

The new production plant in Jasper is designed to coat a wide variety of aluminium body components for more than 2,000 vehicles per day. However, we not only support our customers with an individual production step but also think beyond this: The Cube Concept newly applied in Jasper simultaneously offers an optimisation of logistics processes. Our customers can use the steel cubes KAP has developed as carriers for transporting their components. The parts remain in the cube during coating and are then transported back to the customer. This means the components do not need to be handled manually. The cubes correspond to truck transport dimensions and are thus perfectly suited for use as a carrier in the coating process. Using our Cube Concept shortens supply chains overall, making a considerable saving on transport miles and especially packaging material. In addition to the improved logistics efficiency, the process therefore also has a clear advantage for the environment.

With Jasper, we intentionally picked a site located at the centre of the American automotive industry and with excellent recruiting prospects for qualified personnel in the medium term. As planned, we completed the new plant at the end of 2021 and are now in the production start-up phase. The hall, which was constructed especially for our requirements, extends over 10,000 square metres, is of modular construction, and can thus be flexibly extended as part of the planned further expansion.

ACCELERATE

- Increasing sales focus
- Increasing efficiency
- Securing future prospects

Additional information on page 38

# Precision for a mobile future

## precision components

E-mobility is one of the most important megatrends of our time: the market for electric vehicles is booming – not just in cars but also in bicycles. More and more people are regularly using e-bikes. In the centres of major cities, for example, the sight of large electric cargo bikes with children riding in them has become part of everyday life. Increasingly, there are even marked parking bays for the spacious two wheelers. Even in rural regions, e-bikes are increasingly catching on as an alternative to the car or in addition to a traditional vehicle.

Revenue
**38.8**
**€ millions**

Normalised EBITDA
**1.6**
**€ millions**

Employees
**636**

## "Precision is our passion. Thanks to our team's high level of skills and our outstanding process competence in production, we've established ourselves as a technology leader in the rapidly developing e-bike market of the future."

DR HARTMUT SAUER
Head of the precision components segment

KAP precision components exhibition stand in Friedrichshafen in 2021

### ACCELERATE

Increasing sales focus

Increasing efficiency

Securing future prospects

Additional information on page 38

KAP quickly recognised this opportunity in the precision components segment for itself. The high level of technological expertise from the core business in the automotive sector is transferable almost 1:1 here. With KAP's support, new generations of electric drives are emerging in this rapidly growing market segment. We are currently helping more than 15 customers in Europe with the development of drives for high-quality e-bike models: the focus is on improving comfort, safety and efficiency. It is necessary, in particular, to use the right materials and the highest precision in machining to increase the range and service life of an e-bike motor – and that is exactly what we contribute with our years of expertise and recognised know-how in precision components. The shafts and gears produced by KAP not only have a sector-leading maximum tolerance of 2/1,000 mm but will also contribute significantly to reducing the noise of e-drives in the future. Our tailor-made products on the basis of plastics or plastic-metal compounds meet the high standards of our numerous renowned customers, such as Brose, Pinion or TQ-Systems.

Through various research collaborations with universities and young start-up companies, KAP is always a step ahead of the competition. For example, we are currently working with Kassel-based company REVOLUTE on making drive systems for cargo bikes more powerful. The use of our precision components in the drives means we have helped to ensure, for example, that bicycle chains are less strained under high loads when changing gear and can therefore be used more sustainably.

2021 thus continued to be dominated by successful strategic diversification for the precision components segment. We were again able to prove that our excellent technology know-how is increasingly being put to use not only in the automotive sector but also in other high-growth markets.

# REPORT OF THE SUPERVISORY BOARD

## DEAR SHAREHOLDERS,

The Supervisory Board performed the tasks incumbent on it pursuant to the law, the Articles of Association and the rules of procedure with great care in the 2021 financial year. The 2021 financial year was also still shaped by the coronavirus pandemic. The lockdowns imposed around the world to contain the pandemic affected the economic environment, particularly through the effects of supply bottlenecks and the semiconductor chip crisis. Nevertheless, the KAP Group increased revenue and was thus able to cope well with the challenges in this second year of crisis. The measures we introduced in the previous year to streamline the product and service portfolio and focus on our new core segments certainly helped us. However, in addition to the coronavirus, other events have also occupied the KAP Group. In the course of implementing our new strategy, we have sold our IT segment and our commercial property in Fulda and made the KAP Group more focused and stronger with the acquisitions of NOW Contec, Germany; AerO Coated Fabrics, Netherlands; and Haogenplast, Israel. Together with the Management Board, we will closely monitor the economic environment and take additional steps to realise growth potential in segments with attractive margins, and thus continue to ensure sustainable and successful corporate development.

For 2022, we expect a continuing volatile environment for the KAP Group. In particular, the aggravating impact of supply bottlenecks and the semiconductor chip shortage may have a negative impact on business development.

### COLLABORATION WITH THE MANAGEMENT BOARD

We regularly advised the Management Board on the management of the Company and monitored its work. This was based on detailed written and oral reports by the Management Board, which were provided in and outside of the meetings of the Supervisory Board. Between the meetings, regular dialogue also took place between the chairman of the Supervisory Board and the Management Board and the other members of the Supervisory Board and between the members of the audit committee and the Management Board. The Supervisory Board was directly involved in all decisions of fundamental importance for the Group. We were always promptly and comprehensively informed about the Group's business development, intended business policies, the Group's situation, the risk situation and risk management, compliance, corporate planning (including financial, investment, sales and personnel planning) and current issues. Where the Supervisory Board's consent was needed for decisions or measures of the Management Board on the grounds of the law, the Articles of Association or the rules of procedure, we comprehensively reviewed and thoroughly discussed the draft resolutions and adopted resolutions.

## SUPERVISORY BOARD MEETINGS AND COMMITTEE MEETINGS

In the year under review, there were a total of four regular meetings and one extraordinary meeting of the Supervisory Board and four meetings of the audit committee, which were in some cases held virtually due to the extensive restrictions in connection with the Covid-19 pandemic. The members of the Management Board took part in the meetings of the Supervisory Board – unless it was considered appropriate to discuss individual topics such as personnel issues concerning the Management Board without the Management Board's participation – and reported in detail about the progress of business affairs, the current revenue and earnings development, the opportunities and risks of business development, the significant planned or ongoing investments and disinvestments, and the Group's situation overall. All members in office took part in each of the Supervisory Board and committee meetings in the 2021 financial year. Furthermore, the Supervisory Board informally communicated with the Management Board on the current business performance or current progress on strategic projects – generally monthly.

The meetings had the following focuses:

In the meeting of 25 February 2021, we dealt intensively with the preliminary figures for the 2020 financial year. In addition, current M&A projects, insurance topics and the planning of the Annual General Meeting were discussed.

With the auditor present, we dealt extensively with the 2020 annual financial statements and consolidated financial statements, the management report and the Group management report, the separate combined non-financial Group report, the proposal on the appropriation of profits and the report of the Supervisory Board to the Annual General Meeting at the meeting on 22 April 2021. The auditor explained the audit reports including the focuses of the audit. The Management Board prepared a report on the relations of the Company with affiliated enterprises in the 2021 financial year, which the auditor audited and to which the auditor gave the following unqualified audit opinion pursuant to section 313 of the German Stock Corporation Act (AktG):

“Following our audit and assessment, performed in keeping with our professional duties, we confirm that:

1. the statements as to fact made in the report are accurate,

2. the consideration paid by the company for the legal transactions set out in the report was not excessive, or any disadvantages have been compensated.”

The auditor participating in the meetings of the committee and the Supervisory Board reported the results of the audit of the report on the relations of the Company with affiliated enterprises and answered questions.

Both the audit committee and the Supervisory Board were able to satisfy themselves that the audit and the audit report were in order and, in particular, satisfied themselves that the audit report – as well as audit itself – met the legal requirements. The Supervisory Board raises no objections to the Management Board's closing statement in the report on the relations of the Company with affiliated enterprises and concurs with the results of the auditor's audit.

Moreover, the Management Board reported on legal and HR matters. An update was also given on current M&A projects.

At the extraordinary Supervisory Board meeting on 10 August 2021, which was held by telephone and by way of circulation, the focus was on intensive discussion of the Management Board's remuneration system. At this meeting, the matters discussed and adopted in resolutions also included the invitation to the Annual General Meeting and the Supervisory Board's resolution proposals for the Annual General Meeting and holding the next Annual General Meeting as a virtual annual general meeting. At the meeting, the Supervisory Board also again dealt with the proposal for the appropriation of profit and proposed an increased dividend compared with April 2021. The dividend policy, the impact on KAP AG's liquidity and shareholders' interests were taken into account.

At the meeting on 16 September 2021, the focus was on detailed reporting on the KAP Group's business development in the first half of the year. The Management Board also gave an update on planning and the events of the Annual General Meeting and reported on the situation regarding M&A activities. Legal and HR topics were also discussed.

On 14 December 2021, we met for the last Supervisory Board meeting in the year under review. The focus at this meeting was not only current business development but also the budget for the 2022 financial year. We also spoke about legal, compliance and HR matters and the self-evaluation of our Supervisory Board work required by the German Corporate Governance Code. Moreover, the Management Board reported on the situation regarding M&A activities.

The audit committee comprised Joachim Coers (Chairman), Uwe Stahmer and Christian Schmitz in the year under review. In the 2021 financial year, the audit committee held four meetings on 19 March, 10 May, 13 September and 16 November 2021. The audit committee particularly dealt with the 2020 annual financial statements and consolidated financial statements, the 2021 consolidated half-year report and the quarterly statements. Further agenda items included risk management, the Company's internal control systems, various compliance topics and the processes and systems in the areas of controlling and corporate planning. In addition, the committee discussed the proposal for the election of the auditor for the 2021 financial year. The committee chairman reported on the meetings and the work of the audit committee at each Supervisory Board meeting.

## CORPORATE GOVERNANCE

The principles of good corporate governance are very important to KAP AG and the Supervisory Board. In light of this, dealing professionally with individual Supervisory Board members' conflicts of interest is particularly important to the Supervisory Board. A conflict of interest occurred in the case of one Supervisory Board member in the year under review. The Supervisory Board member handled this in accordance with the requirements of the rules of procedure for the Supervisory Board, disclosed it promptly to the Chairman of the Supervisory Board and did not participate in the decision-making process in this regard. The further development of corporate governance in our Group and compliance with the recommendations of the German Corporate Governance Code were a key focus of our auditing and consultancy work in the 2021 financial year.

The Supervisory Board has set targets for its composition that are taken into account in proposing resolutions to the Annual General Meeting in connection with Supervisory Board elections. In the current composition of the Supervisory Board, all the objectives for its composition are met, particularly:

- At least half the members of the Supervisory Board are to be independent, i.e. in particular not have any personal or business relationship with the Company, its Management Board or a controlling shareholder.

- An age limit of 75 years is taken into account for members of the Supervisory Board. Exceptions to this can only be made in justified individual cases.

- For members of the Supervisory Board, a limit on the length of membership of four terms in office or a total of twelve years is taken into account.

- When selecting candidates for election to the Supervisory Board, where candidates proposed are equally suitable, diversity must be taken into account.

The members of the Supervisory Board take responsibility for undertaking any training or professional development measures necessary to fulfil their duties, such as on changes in legal framework conditions, and are supported by the Company in this. Internal information events are offered as required for targeted training. New members of the Supervisory Board can meet the members of the Management Board and specialist managers to talk about fundamental and current topics and thus obtain an overview of the relevant topics regarding the business (onboarding).

## AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS

Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, which was appointed as auditor by the Annual General Meeting, audited the annual financial statements and consolidated financial statements including the management report and Group management report for the 2021 financial year, which were prepared by the Management Board, taking into account the accounting records. The findings showed that the Company complied with the rules of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG) and with International Financial Reporting Standards as adopted by the EU. The auditor did not raise any objections and issued unqualified audit opinions for both sets of financial statements. The Supervisory Board satisfied itself of the independence of the auditor and the persons acting on the auditor's behalf.

The annual financial statements and consolidated financial statements including the management report and Group management report, the proposal for the appropriation of profit, the separate combined non-financial Group report and the audit reports of the auditor were reviewed and discussed in detail with the Management Board and auditor at the Supervisory Board meeting on 26 April 2022. The financial statement documents and the audit reports were available to all members of the Supervisory Board on time and were dealt with in detail at the accounts meeting of the Supervisory Board on 26 April 2022. The auditor reported on the findings of the audit during its deliberations and was available to us for additional questions and information. The key audit matters were a focus. Based on the final result of our own review, we concurred with the findings of the audit conducted by the auditor and did not raise any objections.

The Supervisory Board discussed the annual financial statements of KAP AG and the consolidated financial statements of the KAP Group prepared by the Executive Board in detail at its meeting on 26 April 2022 and subsequently approved them on 27 April 2022. KAP AG's 2021 annual financial statements are thus adopted. We agree with the Management Board's proposal on the appropriation of retained earnings, which, despite the volatile environment, recommends distributing a dividend of €1 per share and otherwise carrying forward the remaining retained earnings. However, we will monitor developments in connection with the Russia-Ukraine war very closely and review the joint proposal by the Management Board and Supervisory Board before the Annual General Meeting.

## CHANGES IN THE SUPERVISORY BOARD

In its meeting on 25 February 2021, the Supervisory Board unanimously elected Mr Uwe Stahmer Deputy Chairman of the Supervisory Board. He also became a member of the audit committee. The Annual General Meeting on 30 September 2021 elected Mr Christoph Schoeller a member of the Supervisory Board, as his appointment by Fulda District Court ended at the end of the Annual General Meeting that passed the resolution on the formal approval of the Supervisory Board's actions for the 2020 financial year. His term in office will last until the end of the Annual General Meeting that passes the resolution on the formal approval of the Supervisory Board's actions for the 2021 financial year. The Annual General Meeting on 30 September 2021 also passed a resolution to amend article 7 (1) of the Articles of Association. The Supervisory Board will thus consist of up to six members instead of up to five members as before. On 30 September 2021, the Annual General Meeting therefore resolved to elect Mr Viktor Rehart as a further new member of the Supervisory Board. His term in office will last until the end of the Annual General Meeting that passes the resolution on the formal approval of the Supervisory Board's actions for the 2021 financial year.

## THANKS

The KAP Group has achieved important milestones for a successful future in the past financial year in a global economy marked by major disruption. The Supervisory Board would like to thank the members of the Management Board, the segment managers, the managing directors of the segment companies and all the employees for their great dedication and their achievements in the challenging 2021 financial year.

Fulda, 27 April 2022

For the Supervisory Board

**Christian Schmitz**
Chairman of the Supervisory Board

# CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTIONS 289F AND 315D OF THE GERMAN COMMERCIAL CODE (HGB)

The corporate governance statement pursuant to section 289f and section 315d of the German Commercial Code (HGB) is part of the combined management report. With the following information, the Management Board and Supervisory Board of KAP AG report on corporate governance in accordance with Principle 22 of the German Corporate Governance Code (GCGC) and on the Company's corporate governance in accordance with section 289f and section 315d HGB.

## PRINCIPLES OF CORPORATE GOVERNANCE AND THE CORPORATE STRUCTURE

Corporate Governance comprises all the principles for the management and supervision of an enterprise. In this sense, corporate governance is a key component of KAP's management philosophy as an expression of good and responsible corporate management. The principles of corporate governance particularly concern cooperation in the Management Board, in the Supervisory Board and between the two boards, and between the boards and the shareholders, particularly in the general meeting. They also concern our Company's relationship with other people and institutions that have an economic relationship with us.

**Commitment to the German Corporate Governance Code**

KAP AG is a listed stock corporation under German law. For KAP AG, the starting point for ensuring responsible management and supervision of the Company that is geared towards sustainable value enhancement – in addition to complying with the relevant legal standards – is the recognition of the German Corporate Governance Code on the basis of its version of 16 December 2019. The Code, which was adopted by the Government Commission on the German Corporate Governance Code, contains not only a reproduction of legal provisions on the management and supervision of German listed companies but also nationally and internationally recognised standards of good and responsible corporate governance in the form of recommendations and suggestions.

KAP AG's Management Board and Supervisory Board expressly commit to responsible corporate governance and identify with the Code's objectives. According to the Code's foreword, in the interests of good corporate governance and an active corporate-governance culture, this does not exclude non-compliance with Code requirements in individual aspects if the departures from the Code are appropriate due to the specifics of the company.

## 1. DECLARATION PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The Management Board and Supervisory Board of KAP AG have made the Declaration of Conformity pursuant to section 161 of the German Stock Corporation Act (AktG), which was adopted as of 21 April 2022, permanently accessible on KAP AG's website on https://www.kap.de/en/investor-relations/corporate-governance/compliance-statement.

Declaration by the Management Board and the Supervisory Board of KAP AG (hereinafter the Company) pursuant to section 161 AktG:

Since the submission of the last declaration of conformity of 15 April 2021, the Company has complied with the recommendations of the German Corporate Governance Code in the version of 16 December 2019, which was published in the Federal Gazette on 20 March 2020, with the following exceptions and will continue to comply with these to this extent in the future.

Pursuant to recommendation D.5 of the German Corporate Governance Code, the Supervisory Board should form a nomination committee, composed exclusively of shareholder representatives, which names suitable candidates to the Supervisory Board for its proposals to the General Meeting. In the 2021 financial year, the Company deviated from this recommendation and will also deviate from it in the 2022 financial year. Due to the number of Supervisory Board members (six members) and with a view to the fact that the Company's Supervisory Board consists exclusively of shareholder representatives, the Supervisory Board has decided against forming a nomination committee. In the Supervisory Board's view, forming such a nomination committee does not offer any additional increase in the efficiency of the Supervisory Board's work in the Company's specific situation. The Supervisory Board therefore leaves this function with the full Supervisory Board.

Pursuant to recommendation F.2 of the German Corporate Governance Code, the consolidated financial statements and the Group management report should be made publicly accessible within 90 days of the end of the financial year and any mandatory interim financial information should be made publicly accessible within 45 days of the end of the reporting period in question. In the 2021 financial year, the Company deviated from this recommendation and will also deviate from it in the 2022 financial year. The consolidated financial statements are not published within 90 days of the end of the financial year but rather within four months in accordance with current legal requirements. The interim reports are not published after 45 days but rather within the legal requirements or the requirements of the Exchange Rules for the Frankfurter Wertpapierbörse. The Company is of the view that these requirements are sufficient for fully informing shareholders.

Pursuant to recommendation G.3 of the German Corporate Governance Code, in order to assess whether the specific total remuneration of Management Board members is in line with usual levels compared to other enterprises, the Supervisory Board should determine an appropriate peer group of other enterprises and should disclose the composition of that group. In the 2021 financial year, the Company deviated from this recommendation. It will also deviate from it in the 2022 financial year. The Supervisory Board assesses the appropriateness of the remuneration of the Management Board members taking account of, among other things, the remuneration of the management boards of comparable companies. The Supervisory Board intentionally does not have a fixed and static definition of a peer group because the Supervisory Board is of the view that such a link with a firmly defined peer group may well lead to inappropriate results.

Pursuant to recommendation G.6 of the German Corporate Governance Code, the share of variable remuneration achieved as a result of reaching long-term targets should exceed the share from short-term targets. The Company deviated from this recommendation in one case in the 2021 financial year and will also deviate from it in this way in the 2022 financial year. Notwithstanding the recommendation, the contract with one Management Board member provides for an equal weighting of short- and long-term variable remuneration in the event of 100% target attainment. The Supervisory Board also considers equal weighting of the variable remuneration components in the case of a Management Board member who is not simultaneously the spokesperson of the Management Board to be a sensible arrangement that has proven a success. In the Supervisory Board's view, this current very slight deviation from the recommendation does not lead to wrong incentives and does not justify an intervention in existing contracts. Corresponding provisions can be considered in future contracts with Management Board members.

Pursuant to recommendation G.10 sentence 1 of the German Corporate Governance Code, the long-term variable remuneration amounts granted to the Management Board member should be predominantly invested in Company shares or should be granted as share-based remuneration accordingly. The Company deviated from this recommendation in a contract with a Management Board member in the 2021 financial year and will also deviate from it in the 2022 financial year. Each Management Board member receives share-based remuneration. Only in one case is the variable remuneration not granted predominantly as share-based remuneration but in equal parts in cash and as share-based remuneration. In the Supervisory Board's view, this current very slight deviation from the recommendation does not lead to wrong incentives and does not justify an intervention in existing contracts. Corresponding provisions can be considered in future contracts with Management Board members.

Pursuant to recommendation G.11 of the German Corporate Governance Code, variable remuneration of the Management Board can be retained or reclaimed by the Supervisory Board, if justified. In the 2021 financial year, the Company deviated from this recommendation and will also deviate from it in the 2022 financial year. The currently running contracts do not contain provisions under which variable remuneration components can be retained or reclaimed if justified (known as malus and clawback provisions). The Supervisory Board is of the view that provisions to retain or reclaim variable remuneration components are not needed at the Company to encourage the Management Board members to act in the Company's interest in a diligent, long-term and sustainable manner. The Supervisory Board remains free to assert claims for damages pursuant to section 93 of the German Stock Corporation Act (AktG) in the event of conduct culpably in breach of duty. Corresponding provisions can be considered in future contracts with Management Board members.

## 2. RELEVANT DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES

### 2.1. Compliance management system & Code of Conduct

Economic success, integrity and social responsibility are objectives of our Group that cannot be separated – irrespective of whether we or companies controlled by us operate in Germany, Europe or other parts of the world. 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 bundled the sets of rules that are important guidance for this in a compliance management system. As an important component of our compliance management system, which we have introduced across the Group, we have established a dedicated code of conduct for our employees, which is available on https://www.kap.de/en/investor-relations/corporate-governance/code-of-conduct. The code summarises the most important principles of conduct for all employees, including the Management Board, and sets minimum standards for collaboration characterised by respect within our Group and with our business partners.

Compliance refers to compliance with national and international legal requirements and internal rules. We see compliance as a Group-wide measure for compliance with laws and internal policies, and a key element of corporate governance and the corporate culture that must be observed in every area of daily business in the Group. The KAP Group is also interested in discovering any compliance violations in order to avoid possible damage to the Group. We have set up a corresponding whistle-blower system that gives employees as well as business partners and other third parties the opportunity to report, in a protected manner, suspected breaches of the law in relation to the Group.

The focus of the KAP Group's compliance management system is particularly on the areas of anti-corruption and the prevention of bribery. Competition law, sanction and export control, data protection and IT compliance are other relevant topics for the compliance management system. Complying with the compliance policies creates the basic prerequisite for confidence by our business partners, shareholders and the general public in the KAP Group's performance, system of values and integrity.

We are further developing our compliance management system and attempting to establish our values and compliance culture even better in the Group companies. In 2021, four companies were audited for compliance issues as part of the audit performed across the Group. In 2022, we plan to implement further measures resulting from this in the Group companies and continuously actively develop the KAP Group's compliance management system in the future.

We raise our employees' awareness of legally compliant behaviour through training sessions and other training measures. These measures also actively contribute to avoiding the occurrence of potential reputational risks as far as possible. The training sessions are offered as workshops, web-based modules and video content in the relevant national language. Participation in this training is mandatory for our employees and is checked. 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 in the future.

**2.2. Working practices of the Management Board and Supervisory Board**

The German Stock Corporation Act is the legal basis of KAP AG's corporate constitution. It is defined in more detail by the Company's Articles of Association and the German Corporate Governance Code.

### Management Board

In accordance with statutory requirements, KAP AG is subject to a dual governance system. This is characterised by a strict separation of personnel between the Management Board as the management body and the Supervisory Board as the supervision body. The Management Board and Supervisory Board work closely together in the interests of the Group.

The Management Board manages KAP AG on its own responsibility and conducts KAP AG's business. The members of the Management Board conduct the Company's business together in accordance with the law, the Articles of Association and the rules of procedure issued by the Supervisory Board. The rules of procedure for the Management Board issued by the Supervisory Board set out the responsibilities in the Management Board and define the work of the committees in more detail. The rules of procedure also set out which Management Board decisions require the Supervisory Board's consent.

The Management Board's tasks include regular coordination of the Group's strategic direction with the Supervisory Board, implementation of the strategic direction and the exchange information on the implementation status with the Supervisory Board at regular intervals. The Management Board regularly, promptly and comprehensively informs the Supervisory Board of all issues relevant for the Group regarding the Group's business development, financial situation and financial performance, planning and target achievement, the risk situation and risk management. Where the Group's business development diverges from the plans and objectives drawn up, this is explained and justified in detail. The Management Board's reporting also covers compliance topics, i.e. measures for compliance with legal requirements and internal policies.

The Management Board receives the information needed for corporate governance and decision-making through monthly financial reports from the units and regular conversations with the segment managers and the managing directors of the operating units, and on visits to sites in Germany and abroad. Where the Group's business development diverges from previously drawn up plans and objectives, this is explained and justified to the Supervisory Board in detail and discussed together with the Supervisory Board. The Management Board's actions and its decisions are guided by the Group's interests. It is committed to the aim of sustainably increasing the value of the company. The members of the Management Board are jointly accountable for all of the management. They work together cooperatively and inform each other about important measures and events in their areas of responsibility on an ongoing basis.

Management Board members are subject to comprehensive non-compete clauses throughout the duration of their work for the Company. They take on additional employment, particularly mandates in supervisory boards of companies that are not affiliated companies of KAP AG, only with the consent of the Supervisory Board. Every member of the Management Board is obliged to disclose any conflict of interest to the chair of the Supervisory Board and to inform the other Management Board member without delay. In the 2021 financial year, KAP AG's Management Board members did not have any conflicts of interest.

When making appointments to executive positions in the Group, the Management Board considers diversity and strives in particular to ensure appropriate consideration is given to women. The members of the Management Board should generally not be older than 63.

In the reporting year, KAP AG's Management Board consisted of Mr Eckehard Forberich (Spokesman of the Management Board) and Mr Marten Julius (CFO). Mr Forberich was responsible for strategy, business development, M&A and human resources. Mr Julius was responsible for finance, controlling, investor relations & corporate communications, IT and law.

### Long-term succession planning for the Management Board

Together with the Management Board, the Supervisory Board ensures that there is long-term succession planning. To this end, the Supervisory Board members regularly discuss the topic of succession planning in plenary session taking account of the current appointment time scales, the services of the Management Board members, the diversity strategy and the strategic direction. In addition, the Supervisory Board regularly communicates with the Management Board about suitable internal candidates and, where necessary, advises on potential external candidates.

### Supervisory Board

The Supervisory Board has set out its working practices in rules of procedure, which govern, among other things, the conduct of the meetings and the adoption of resolutions on business transactions requiring approval. The Supervisory Board currently consists of six members. It appoints the Management Board and advises it on the management of the Company, monitors its management and sets the remuneration of the Management Board members. The Supervisory Board's tasks are regulated not only by statutory requirements, but also by the Articles of Association and by the rules of procedure. Detailed information on the Supervisory Board's work in the reporting year can be found in the report of the Supervisory Board on page 16 of the 2021 Annual Report. The rules of procedure are available on https://www.kap.de/en/company/boards-1/supervisory-board.

The collaboration between the Supervisory Board and Management Board is in a spirit of mutual trust and based on regular exchange of information. Outside of the Supervisory Board meetings prescribed by law, the Supervisory Board is regularly provided with figures, and important developments and incidents are discussed by phone between the meetings. Additional information on the collaboration between the Management Board and Supervisory Board can be found in the report of the Supervisory Board.

The composition of the Supervisory Board has to ensure that its members collectively possess the knowledge, skills and professional expertise required to properly perform their duties. Supervisory Board members should not be members of governing bodies of, or exercise advisory functions at, significant competitors of the Group. No more than two former members of the Management Board should be members of the Supervisory Board. One former member of the Management Board has been elected to the Supervisory Board. Each member of the Supervisory Board ensures that they have sufficient time available to carry out their Supervisory Board mandate. Every member of the Supervisory Board is obliged to act in the best interests of the Group and must not pursue personal interests in their decision-making nor exploit for themselves business opportunities to which the Group is entitled. A member of the Supervisory Board must disclose any conflict of interest. The member is excluded from the decision-making at meetings of the Supervisory Board at which the matter presenting a conflict of interest is discussed.

The Supervisory Board has set targets for its composition that are taken into account in proposing resolutions to the Annual General Meeting:

– At least half the members of the Supervisory Board are to be independent, i.e. in particular not have any personal or business relationship with the Company, its Management Board or a controlling shareholder.

– An age limit of 75 years is taken into account for members of the Supervisory Board. Exceptions to this can only be made in justified individual cases.

– For members of the Supervisory Board, a limit on the length of membership of four terms in office or a total of twelve years is taken into account.

– When selecting candidates for election to the Supervisory Board, where candidates proposed are equally suitable, diversity must be taken into account.

The last adjustment of the objectives was made in March 2022. The current composition of the Supervisory Board meets all the objectives for the composition of the Supervisory Board.

Christoph Schoeller and Viktor Rehart were elected to the Supervisory Board at the Annual General Meeting on 30 September 2021. Both mandates terminate upon the end of the Annual General Meeting that passes the resolution on the formal approval of the Supervisory Board's actions for the 2021 financial year. In the reporting year, the Supervisory Board elected Mr Uwe Stahmer Deputy Chairman of the Supervisory Board. As of the reporting date of 31 December 2021, the Supervisory Board comprised Mr Christian Schmitz (Chairman), Mr Uwe Stahmer (Deputy Chairman), Mr Roy Bachmann, Mr Joachim Coers, Mr Viktor Rehart and Mr Christoph Schoeller. The Supervisory Board followed the recommendation of the German Corporate Governance Code and in addition to the objectives for its composition also prepared a profile of skills and expertise for the entire Board. It will base its proposals for the election of Supervisory Board members on this profile in future. Together, the objectives and the profile form the diversity strategy pursuant to section 289f (2) 6 and section 315d of the German Commercial Code (HGB).

In the Supervisory Board's assessment, taking into account the shareholder structure of the Company, an appropriate number of independent Supervisory Board members belong to the Supervisory Board if at least 50% of the members of the Supervisory Board are independent of the Company within the meaning of C.6 sentence 2 of the Code. Three members of the Supervisory Board currently fulfil the independence criterion. Two members of the Supervisory Board, namely Mr Coers and Mr Stahmer, have the professional expertise pursuant to section 100 (5) of the German Stock Corporation Act (AktG). As a whole, the members of the Supervisory Board are familiar with the sector in which KAP AG operates.

The Supervisory Board has formed an audit committee. The audit committee consists of three members: Joachim Coers (Chairman), Uwe Stahmer and Christian Schmitz. Mr Coers has expertise in the field of accounting and auditing. Mr Stahmer has expertise in the field of accounting and auditing. The Chairman is also independent and not a former member of the Company's Management Board. As a whole, the members of the audit committee are familiar with the sector in which the Company operates. In particular, the committee monitors the accounting, the accounting process, the effectiveness of the internal control system, the risk management system, the internal audit system and the audit of the financial statements.

An efficiency audit of the Supervisory Board's work was last conducted in 2021 with the aid of external consultancy, an evaluation questionnaire to be completed and structured interviews with each Supervisory Board member and the Management Board. Furthermore, the coronavirus restrictions temporarily changed the Supervisory Board's working practices.

**Disclosures on the setting of targets for the proportion of women**

In accordance with section 111 (5) of the German Stock Corporation Act (AktG), the Supervisory Board has set itself the target of having women occupy at least 30% of its seats and has set a deadline of 31 December 2023 for reaching this target. The target for the proportion of women in the Management Board was set by the Supervisory Board at 30% from three Management Board members onwards. This applies from March 2022. There are no management levels below the Management Board at KAP AG for which disclosures would need to be made pursuant to section 76 (4) AktG.

The report of the Supervisory Board on 16 page of the 2021 Annual Report examines the work of the Supervisory Board and its committees in the past fiscal year.

# ADDITIONAL DISCLOSURES ON CORPORATE GOVERNANCE

## 1. REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The applicable remuneration system for the Management Board pursuant to section 87a (1) and (2) sentence 1 of the German Stock Corporation Act (AktG) and the last remuneration resolution on the remuneration of the Supervisory Board pursuant to section 113 (3) AktG are publicly accessible on the Company's website on www.kap.de/en/investor-relations/general-meeting/agenda-documents. The remuneration report and the audit report pursuant to section 162 AktG are publicly accessible on www.kap.de/en/investor-relations/reports-amp-presentations/financial-reports.

## 2. SHAREHOLDERS AND TRANSPARENCY

The prompt and uniform provision of information to the public is an important building block of good corporate governance for KAP AG. According to Art. 17 MAR, KAP AG is required to publicly disclose inside information that directly concerns it immediately. Where there was an obligation to publish an ad hoc disclosure, the disclosures were ensured in accordance with the legal requirements and with the assistance of a specialist service company. Five ad hoc disclosures were published in the 2021 financial year.

Persons discharging managerial responsibilities at KAP AG (the issuer), as well as persons closely associated with them, are required under Art. 19 (1) MAR to notify the German Federal Financial Supervisory Authority (BaFin) and the issuer of so-called transactions conducted on their own account, i.e. transactions with financial instruments of the issuer, if the limit of €20,000 is exceeded within the calendar year.

KAP AG publishes a financial calendar in which relevant dates are entered in a timely manner in the Investor Relations section of its website www.kap.de/en. Moreover, all IR releases, press releases and ad hoc disclosures as well as directors' dealings disclosures and voting rights notifications are available online on www.kap.de/en/investor-relations.

Shareholders exercise their rights at the General Meeting. In the 2021 financial year, the Annual General Meeting was held virtually within the bounds of legal requirements due to the coronavirus pandemic.

## 3. RISK MANAGEMENT, COMPLIANCE, ACCOUNTING, AUDITING

We consider handling risks responsibly to be an important element of good corporate governance. KAP AG has a systematic risk management system that enables the Management Board to react immediately to relevant changes in the risk profile and to identify market trends early. The functionality of the early risk identification system is a subject of the annual audit. A detailed presentation is available in the Group management report on page 63 of the 2021 Annual Report.

Compliance with national and international legal and ethical principles in business dealings is an integral component of KAP AG's corporate culture. These include principles such as honesty and integrity towards our customers, suppliers, employees, shareholders and the public.

The Supervisory Board engaged Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, with registered office in Hamburg, as the auditor for the 2021 financial year. It had previously made sure that the existing relations between the auditor and KAP AG and its boards do not give reason for any doubt regarding the auditor's independence. Furthermore, it is agreed that the Supervisory Board will be immediately informed of any grounds for disqualifying the auditors or questioning their impartiality occurring during the audit.

## 4. FUTURE DEVELOPMENTS OF THE GROUP'S CORPORATE GOVERNANCE

We see corporate governance as an ongoing process, the development of which we will continue to monitor closely in the future.

KAP AG

Fulda, 27 April 2022

The Management Board The Supervisory Board

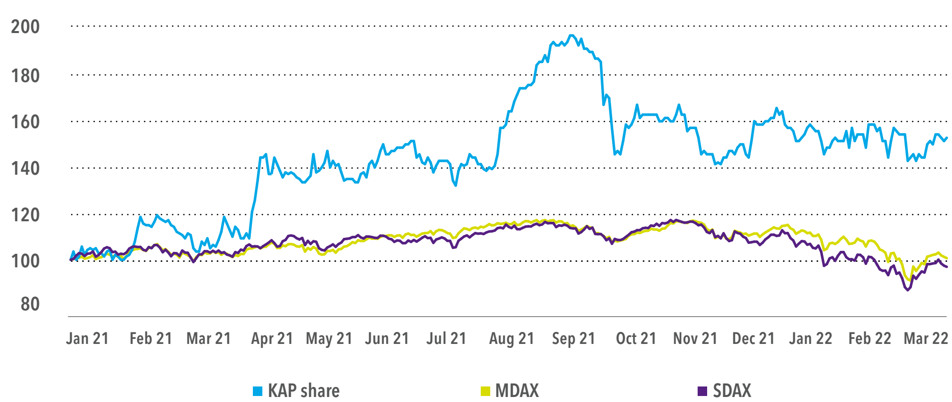
# KAP ON THE CAPITAL MARKET

## STOCK MARKET YEAR 2021: MARKET AS A WHOLE POSITIVE OVERALL DESPITE COVID-19 PANDEMIC

2021 was another crisis year that was shaped by the Covid-19 pandemic and its effects. At the start of the year, the equity markets continued their good performance of the previous year until August 2021. With the emergence of additional virus variants and the related economic uncertainties, global equity markets fell slightly in September 2021. During the year, the market recovered again and, as a result, the German leading index DAX reached an all-time high on 17 November 2021. In addition to the pandemic, the US trade conflicts with China and Europe and insecure supply chains again adversely impacted capital markets in the major economic areas.

German equity markets continued their positive course in the 2021 financial year despite the coronavirus crisis. The three most important German stock indices, the DAX, the MDAX and the SDAX, developed accordingly and reached their annual highs from September and highest levels in mid-November. As of the end of the year, all indices thus reported positive performance. The DAX rose by 15.79% to 15,884.86 points, the MDAX rose by 14.05% to 35,123.25 points and the SDAX rose by 11.17% to 16,414.67 points (reference date 30 December 2021).

**KAP's share price performance compared to selected indices (in %)**



# KAP'S SHARE PRICE PERFORMANCE

The KAP share outperformed the market as a whole in 2021. The share reached its peak for the year at a price of €27.60 on 15 September following a significant upward trend. It reached its lowest value on 4 January at a price of €14.00. The KAP share rose by a total of 64.0% in 2021 and closed at €22.80 on 30 December. The significant rise is due, in particular, to a decrease in uncertainties in connection with the pandemic and the resulting increase in orders and the accelerated implementation of measures in connection with the Accelerate programme. The KAP Group's market capitalisation was €177.1 million at the end of the year.

The first few months of 2022 continue to be shaped by the coronavirus pandemic and its economic effects. Since February 2022, the outbreak of the Russia-Ukraine war and its economic effects have also dominated. In particular, this has led to supply bottlenecks, inflation concerns and associated interest rate fears Equity markets are responding nervously to the latter reasons in particular and are falling slightly. The KAP share has lost 5.3% since the start of the year with a closing price of €21.60 on 31 March 2022. The SDAX fell by 13.2% and the MDAX by 11.7% in the same period.

**Key data on the KAP share**

| | | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|---|
| Closing price for the year | € | 22.80 | 13.90 | 20.20 | 32.00 | 36.00 |
| High for the year | € | 27.60 | 30.00 | 38.20 | 42.80 | 37.39 |
| Low for the year | € | 14.00 | 11.70 | 19.00 | 31.60 | 20.70 |
| Number of shares (31/12) | in millions | 7.8 | 7.8 | 7.8 | 7.8 | 6.6 |
| Market capitalisation (31/12) | € millions | 177.1 | 107.9 | 156.8 | 248.3 | 238.5 |
| Earnings per share | € | 5.14 | –0.35 | –1.82 | 1.98 | 4.68 |
| Price-to-earnings ratio [1] | | 4.44 | – | – | 16.16 | 7.69 |
| Dividend per share | € | 1.00 [2] | 1.75 | 0.00 | 2.00 | 2.00 |
| Dividend yield | % | 4.4 [2] | 12.59 | 0.0 | 6.3 | 5.6 |
| Total dividend payout | € millions | 7.8 [2] | 13.6 | 0.0 | 15.5 | 14.1 |

[1] Closing price for the year/earnings per share.
[2] Subject to approval by the Annual General Meeting.

## SHAREHOLDER STRUCTURE UNCHANGED

The shareholder structure remained largely unchanged in the 2021 financial year. As of 31 December 2021, as the largest shareholder The Carlyle Group continued to hold 45.5% of the shares and FM Verwaltungsgesellschaft mbH as the second largest shareholder held 25.7% of the shares. The free float comprises the rest of the shares and amounts to 28.8%.

The number of shares issued increased to 7,767,563 shares with a calculated proportion of the share capital of €2.60 each due to the subscription of 7,210 new shares that were issued to the new CFO Marten Julius in December 2020. Registration and hence the effectiveness of the capital increase occurred in January 2021.

## PROPOSED DIVIDEND OF €1.00 PER SHARE

The joint proposal by the Management Board and Supervisory Board for the appropriation of profit for the 2021 financial year to the Annual General Meeting is for a dividend of €1.00 per dividend-bearing share and to carry forward the remaining difference. However, the Management Board and Supervisory Board will monitor developments in connection with the Russia-Ukraine war very closely and review the proposal before the Annual General Meeting. The amount distributed will be €7.8 million (previous year: €13.6 million) if shareholders approve this proposal for the appropriation of profit at the Annual General Meeting.

## INVESTOR RELATIONS ACTIVITIES INCREASINGLY DIGITAL

As the issuer of a share listed in the Prime Standard segment of Deutsche Börse, we complied with its high quality standards and the corresponding publicity obligations. The aim of our investor relations activities is to increase awareness and acceptance of KAP AG on the capital market. The Covid-19 pandemic meant that, sadly, no face-to-face events were possible in 2021 either, which is why the September 2021 Annual General Meeting was held as a virtual event. In November 2021, we provided information to institutional investors and analysts about our current business situation and were available to them for questions at the digital Deutsches Eigenkapitalforum. In the reporting year, we were also able to continue our direct dialogue with institutional and retail investors. In this way, we deepened existing contacts and established new contacts with investors. Additional information and publications relevant to the capital market and the key data on the KAP share are published on our investor relations website: www.kap.de/en/investor-relations.

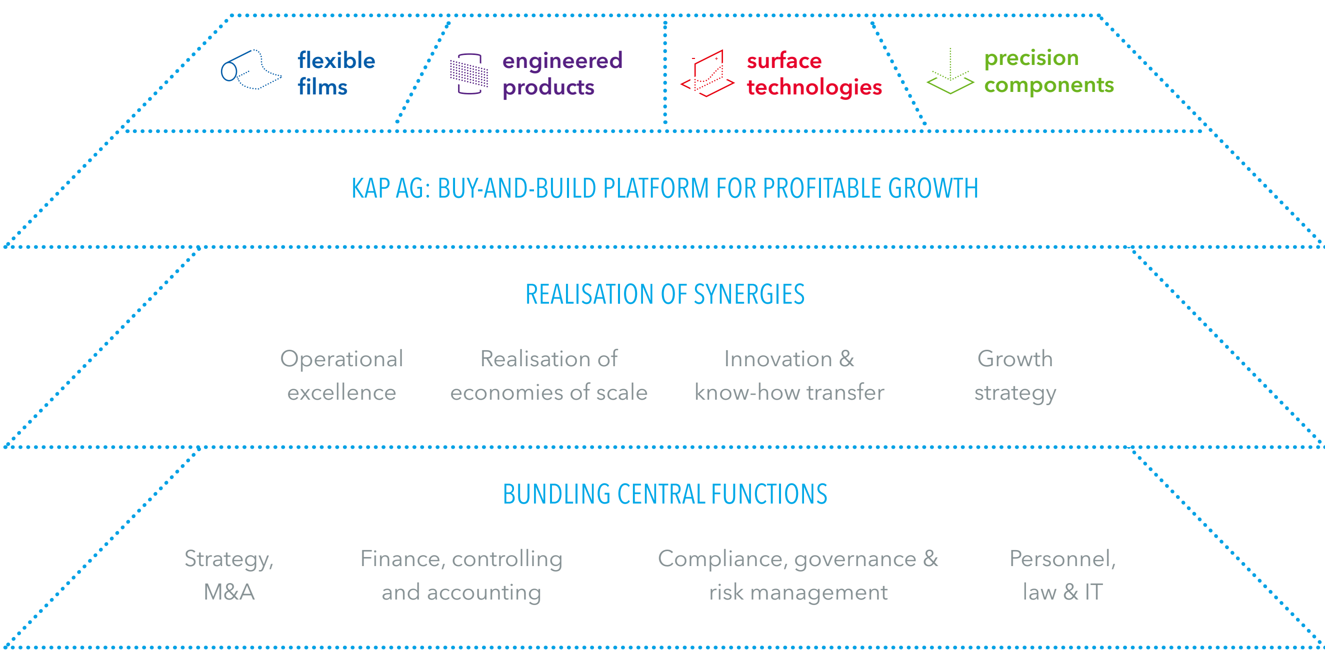
# Combined Management Report

# SITUATION OF THE GROUP

## ORGANISATION AND BUSINESS MODEL

### GROUP STRUCTURE

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. In addition, it performs central functions in the areas of investment controlling, corporate governance, investor relations, finance, treasury, legal, compliance and administration. The Group's operating business was divided into four segments in the year under review: **flexible films, engineered products, surface technologies** and **precision components.** The process for the sale of the it/services segment was initiated in the third quarter of 2020 and completed on 30 June 2021, through which KAP AG has taken advantage of attractive offers by interested parties on the market and increases its investment focus on industrial manufacturing companies. Based on a long-term strategy, our high margin industrial holdings are further expanded and developed into market leaders in attractive niche markets using organic growth and acquisitions.



The operational management and development of the segments are the responsibility of the segment managers. They independently implement the strategy jointly agreed with KAP AG's Management Board and corresponding programmes of measures and investments for their segment. Raw materials and services, production and transport are generally purchased on a decentralised basis by the operating subsidiaries of our four segments. Where possible and appropriate, procurement is centrally coordinated within a segment to realise purchasing synergies where possible. The key procurement markets for our segments are plastic granulates, raw threads made of various primary materials, chemicals, steel and other metals.

## SEGMENTS

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

The **engineered products** segment develops, produces and sells technical textiles with a worldwide presence of eight sites and approximately 815 employees. The areas in which our yarns and fabrics are used include power transmission belts in the automotive and agricultural sector, air springs in the field of road and rail transport, and reinforcement for flexible feed pipes for the oil and gas industry. In addition, our technical textiles are used, for example, as reinforcing supports in rubber products such as conveyor belts and brake diaphragms, or as carrier materials for coated end products. Our solutions are a key element for the characteristic performance required in our customers' specific application areas.

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

The **precision components** segment develops, produces and sells highly complex plastic and plastic-metal compound parts. Our portfolio includes plastic gears, gears with plastic-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.

In 2020, the Management Board and Supervisory Board decided to sell the it/services segment during the 2021 financial year. Only the internal data centre and help desk departments will remain in the KAP Group. MEHLER Engineering und Service GmbH, which belongs to this segment, was sold to its existing management in a management buy-out with effect as of 1 January 2021. The sale of the it-novum Group was completed as of 30 June 2021.

**Structure of the KAP Group until 31 December 2021[1]**

KAP AG

| flexible films | engineered products | surface technologies | precision components |
|---|---|---|---|
| 37.1%<br>(previous year: 29.6%)<br>Revenue share[1] | 34.1%<br>(previous year: 37.5%)<br>Revenue share[1] | 16.7%<br>(previous year: 15.8%)<br>Revenue share[1] | 11.3%<br>(previous year: 11.7%)<br>Revenue share[1] |

[1] Share of total revenue in the 2021 financial year.

**Key applications**

| flexible films | engineered products | surface technologies | precision components |
|---|---|---|---|
| TPU roofing membranes | Power belts, hoses and air springs for the automotive sector | Cathodic dip coating (CDC) | Electric parking brakes |
| Reinforced PVC pool liners | Premium tyres | Passivation | Wiper system |
| Coated vapour barriers | Heavy conveyor belts | Zinc-nickel | E-bikes |
| Membranes for car transport | Industrial adhesives and sealants | Copper-nickel-chrome (Chrome III) | Electric steering adjustment |
| Cinema screens | | | |
| Medical protective clothing | | | |

### CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

In its meeting on 25 February 2021, the Supervisory Board unanimously elected Mr Uwe Stahmer Deputy Chairman of the Supervisory Board. He also became a member of the audit committee. The Annual General Meeting on 30 September 2021 elected Mr Christoph Schoeller a member of the Supervisory Board, as his appointment by Fulda District Court ended at the end of the Annual General Meeting that passed the resolution on the formal approval of the Supervisory Board's actions for the 2020 financial year. His term in office will last until the end of the Annual General Meeting that passes the resolution on the formal approval of the Supervisory Board's actions for the 2021 financial year. The Annual General Meeting on 30 September 2021 also passed a resolution to amend article 7 (1) of the Articles of Association. The Supervisory Board will thus consist of up to six members instead of up to five members as before. On 30 September 2021, the Annual General Meeting therefore resolved to elect Mr Viktor Rehart as a further new member of the Supervisory Board. His term in office will last until the end of the Annual General Meeting that passes the resolution on the formal approval of the Supervisory Board's actions for the 2021 financial year.

### LOCATIONS

The KAP Group is represented globally through its operating subsidiaries at a total of 28 sites in twelve countries. Our production focus continues to be on Germany. However, we also have production sites in Belarus, China, the Czech Republic, Hungary, India, Israel, the Netherlands, Poland, Portugal, Sweden and the USA.

## OBJECTIVES AND STRATEGIES

The KAP Group is a listed industrial holding group in the upper mid-size market with a strategic focus on medium-sized production companies in attractive niche markets. The KAP Group is currently active in four industrial segments with various technologies and is distinguished by its high quality standards and engineering expertise. To further develop the segments, the KAP Group bundled concrete packages of measures in a strategy programme in the past financial year, taking account of the existing Group strategy. The programme is largely to be implemented by the end of 2022. Our overarching objective is to grow profitably and in the long term. To this end, we rely on a diversified portfolio of SMEs, in which our products and applications from the general industrials area are a key source of revenue. The second source of revenue is the automotive segment. In this sector, we increasingly supply the automotive industry's Tier 1 and Tier 2 customers with pioneering products relating to lightweight construction, corrosion protection and electromobility. To reach additional areas of business for broader diversification of our customer structure, we are accelerating the targeted expansion of businesses in attractive and future-oriented application industries, such as from the healthcare and construction industry, agricultural and environmental technology and the field of hygiene.

Our Group has proven to be encouragingly resilient in the coronavirus crisis. To enable us to return to sustainable and profitable growth on the basis of the current, still challenging economic conditions, we have launched a comprehensive programme with the following improvement initiatives:

**Increasing sales focus:** In the segments, the sales focus on long-term and sustainable growth is to be increased to secure the Group's organic growth. This particularly includes the segment-specific optimised organisation of the sales team and quantified sales initiatives for existing and new customers. To improve sales efficiency and transparency regarding the order situation and sales planning, appropriate sales funnel tools were further developed in the year under review and have been filled with the first forward-looking projects.

**Securing future prospects:** The KAP Group is securing future prospects through targeted technology developments and investing in existing and new sites. We are making investments in technologies and production processes in close consultation with selected customers, such as in the expansion of our presence in the USA at the site in Jasper, Alabama, for a major order from our Tier 1 customer Daimler in the **surface technologies** segment. Furthermore, we are developing and operationalising segment-specific technology road maps.

**Increasing efficiency:** The existing Lean management processes are being further optimised at selected sites to increase process and product efficiency. The purchase processes and use of materials are to be optimised by means of increased management focus and bundling purchase volumes, and, ultimately, better procurement conditions are to be achieved. Additional topics include streamlining site and management structures or withdrawal from sites with permanently low gross profit margins.

**Optimising financial leeway:** As well as further accelerating efficient working capital management, we are optimising the KAP Group's liquidity. This strategic initiative's other key elements include the sale of the it/services segment and of other assets that are not strategically relevant, such as the sale of the property at the Fulda site. Financial leeway is also to be optimised for targeted growth, including by means of M&A.

**Focusing the portfolio:** We want to expand our leading market position in these attractive niche markets by means of targeted acquisitions of successful SMEs with growth potential in our core segments. We also continuously review the opportunities and risks in the existing portfolio and will, if necessary, withdraw from sites with permanently low gross profit margins or arrange an organisational merger of sites.

**Expanding overarching risk management:** The strategy programme also includes the expansion of the overarching risk management systems and the continuous development of the ERP systems, KPI monitoring and KPI management. The overall management of such cross-segment initiatives is handled at Group level by a newly established project management office and also uses cloud-based KPI and monitoring tools. In addition, the KAP Group's governance principles are being permanently further developed in line with the relevant ESG criteria.

# MANAGEMENT SYSTEM

KAP AG's corporate governance is geared to the long-term corporate strategy and the segments' development opportunities and is additionally guided by short- and medium term objectives defined in the strategy programme. This approach means that we can record and analyse any deviations from the overarching strategy and the detailed targets for growth, profitability and liquidity derived from it, and – if necessary – counteract the deviations with suitable measures. In order to manage complex processes, in the past financial year we further developed the central KPI and monitoring approach, which is supported by a central project management office. KAP AG uses a cloud-based tool for this. It also supports the segments with implementation of the content through joint and technically sound fine-tuning and development of the planned measures into individual activities and with analyses of the market and the competition.

Within the framework of strategic corporate development, KAP AG's Management Board is responsible for overall planning and realisation of the targets set. We are in constant dialogue with our segment managers and the managing directors of our subsidiaries about the results achieved, possible deviations and future developments. A management reporting system for the monthly management of the segments includes not only an explanation of the current business situation but also a wide range of financial and non-financial key performance indicators, including from the income statement, balance sheet, liquidity forecast and cash flow statement. A monthly analysis of working capital is also conducted. The most important profitability- and liquidity-oriented key performance indicators include, in particular, revenue; earnings before interest (financial result), taxes, depreciation and amortisation (EBITDA); "normalised EBITDA", which has been adjusted for special items (for its derivation, see page 47); investments in property, plant and equipment and regularly updated liquidity planning. For the purpose of long-term comparison and for a better understanding of business development, KAP AG normalises certain income items and expenses that Management believes represent special items and are not connected with current operating activities. The composition and development of these key figures in the year under review is explained in the economic report starting on page 40.

# RESEARCH AND DEVELOPMENT

Within the KAP Group, the R&D activities are located directly in our segments or segment companies. This ensures direct proximity to customers, and we are thus able to develop innovative solutions to market readiness early and often together with our customers. At the same time, we optimise the coordination of individual R&D activities within the segments with overarching management by the segment managers. We essentially pursue three strategic approaches with our activities: the continuous development of new products and product groups, often in close cooperation with our customers; the technical development/optimisation of our existing product portfolio and the further development of the production processes and technical procedures used with the aim of improving product characteristics or reducing manufacturing costs. In the 2021 financial year, expenses for research and development for fundamentally new products and processes within the KAP Group totalled €1.9 million (previous year: €1.6 million). This particularly concerned costs for software development of €0.3 million (previous year: €0.6 million) and costs for tools and sample parts of €1.6 million (previous year: €0.5 million).

# ECONOMIC REPORT

## MACROECONOMIC AND INDUSTRY-SPECIFIC CONDITIONS

### DEVELOPMENT OF THE GLOBAL ECONOMY

The global economy recovered in the 2021 financial year. Gross domestic product (GDP) grew by 5.9% according to the International Monetary Fund (IMF). It thus performed significantly better than in the previous year, when it shrank by 3.1% due to the coronavirus pandemic.

The easing of pandemic restrictions as a result of the decrease in coronavirus infections, the economic stimulus provided by governments, and the continuing loose monetary policy of central banks meant there was a significant economic recovery in the first half of the year.

By contrast, the second half of 2021 was shaped by sharp rises in coronavirus infections, considerable disruptions in global supply chains, which hurt global trade and particularly industrial production, a slowdown of growth in China, significantly increased inflation in advanced economies and sharp rises in energy prices. Consequently, the recovery of the global economy slowed noticeably from mid-year.

**Economic environment**[1]

| Real change in GDP in % | 2021 | 2020 |
|---|---|---|
| World | 5.9 | –3.1 |
| Eurozone | 5.2 | –6.4 |
| Germany[2] | 2.7 | –4.6 |
| USA | 5.6 | –3.4 |
| Emerging economies | 6.5 | –2.0 |

[1] International Monetary Fund (IMF) – World Economic Outlook Update, January 2022.
[2] Destatis, press release of 14 January 2022.

### ECONOMIC DEVELOPMENT BY REGION

In the **eurozone,** GDP rose by a total of 5.2% in the 2021 financial year according to data from the IMF (previous year: –6.4%). According to calculations by the European Central Bank, the eurozone's economy recovered and grew by 5.1%. However, the pre-crisis level was not reached due to the high infection figures in the second half of the year and the associated restrictions. In the eurozone, economic activity was primarily curbed by increasing supply bottlenecks. Private consumption also remains at pre-crisis levels.

Economic development in **Germany** was more stable during the pandemic compared with other European countries. Following a comparatively moderate decreased by 4.6% in the first year of the coronavirus pandemic, growth in 2021 was likewise moderate. GDP grew by 2.7% according to preliminary calculations by the German Federal Statistical Office (Destatis). The German economy was thus able to recover from the economic downturn in the previous year despite the continuing pandemic situation and global supply bottlenecks. According to

Destatis, economic output increased in almost all sectors of the economy in 2021. However, it was not able to reach the pre-crisis level in most cases. In the manufacturing sector, economic output increased by 4.4% year on year. Only in the construction industry did it decline, falling by 0.4%. Private consumer spending stabilised at the low level of the previous year in 2021. It was, however, still significantly below its pre-crisis level. Gross fixed capital formation increased by 1.3%. Exports increased by 9.4% in 2021, while imports grew by 8.6%. Foreign trade thus recovered from the sharp decline in the previous year and almost reached the level of 2019. The average number of people in work in Germany was 44.9 million in 2021 and was thus roughly at the previous year's level.

**US** economic output also recovered in 2021 and grew by 5.6% (previous year: –3.4%).

**Emerging markets and developing countries** experienced economic growth of 6.5% in the past year (previous year: –2.0%). China was one of the few economies in the world to achieve positive economic growth in both 2020 (+2.3%) and 2021 (+8.1%).

## DEVELOPMENT OF IMPORTANT CUSTOMER SECTORS

The KAP Group's segment companies operate in various market niches and mainly produce products and solutions for companies from the industrial sector. The data on current developments in these markets is only publicly available to a limited extent due to their particular nature. Some of the segment companies are highly dependent on the automotive sector.

The general economic situation and the development of industrial production are therefore of great significance. According to data from BDI – Bundesverband der Deutschen Industrie e.V., when adjusted for calendar effects, production in the manufacturing sector increased by 2.3% in the third quarter of 2021 compared to the previous year. The construction industry saw slight growth of 1.1%. The production of consumer goods and intermediate consumption goods increased significantly (by 5.2% and 7.9%, respectively), whereas capital goods saw a significant contraction (–2.7%).

Following the recovery phase in the first half of the year, in the second half of 2021 the global automotive industry and its suppliers were significantly impacted by disruptions in global supply chains and significant increases in prices of raw materials. According to the latest forecast by market research company IHS Markit, 0.3% more light vehicles were produced globally in 2021 than in the previous year (previous year: –16.1%). Given the more demanding political carbon emissions targets and state subsidy programmes, the market shares of battery-powered electric vehicles and hybrid vehicles increased sharply. This trend was accelerated during the coronavirus crisis according to sector experts at Landesbank Baden-Württemberg (LBBW). In Germany, there were 681,900 new registrations of electric cars over the course of the year (+73%) according to the German Association of the Automotive Industry (VDA). This is equivalent to an electric share of 26% for full year 2021. In Germany, more than one in four newly registered passenger cars thus had an electric drive.

# BUSINESS PERFORMANCE

## OVERALL STATEMENT OF THE MANAGEMENT BOARD ON BUSINESS PERFORMANCE AND THE ECONOMIC SITUATION

The KAP Group's business performed better overall in the 2021 financial year than in the previous year as a result of the increase in demand in the automotive industry. Despite the gloomy market environment in the second half of the year, which particularly entailed considerable disruptions in global supply chains, KAP's continuing operations generated consolidated revenue of €345.6 million, which was 7.1% more than the previous year (previous year: €322.7 million). Normalised EBITDA rose by 15.0% to €35.0 million (previous year: €30.4 million). The KAP Group thus achieved the full year forecast for consolidated revenue of €320 to 350 million, which had been increased in August 2021, within the upper range (forecast in the 2020 Annual Report: €300 to 330 million). The same applies to achievement of the target for normalised EBITDA with a forecast range of €32 to 38 million (forecast in the 2020 Annual Report: €27 to 33 million).

We are satisfied overall with this robust business performance and taking account of the significantly more difficult conditions. The normalised EBITDA margin rose by 0.7 percentage points to 10.1% (previous year: 9.4%). Our most important key performance indicator is therefore above our target of 10.0%. The KAP Group's resilient performance is mainly due to the restructuring measures already implemented and the segments' diversified positioning in their niche markets. At €31.6 million, our investments in intangible assets and in property, plant and equipment were higher than the previous year's level (previous year: €21.4 million). The consolidated annual result after taxes, which was strongly affected by special items, improved very significantly to €39.9 million (previous year: €–2.7 million).

Looking back, the **surface technologies and precision components** segments, which are particularly dependent on the automotive sector, were more strongly affected by the dynamic market developments in the course of the year. The **flexible films** segment, by contrast, remained on its growth course and continued to benefit from high customer demand, e.g. in the construction and swimming pool liner sectors. **flexible films** in fact developed significantly better than expected. The **engineered products** segment reported a decrease in revenue due to the final closure of two production sites in the second half of 2020. Business in the **surface technologies** segment developed well overall in 2021. Due to increased demand in the automotive sector, the segment initially achieved revenue growth that was, however, curbed in the second half of the year by the global supply bottlenecks in semiconductors. In the **precision components** segment, it was also not possible to continue the positive development from the first half of the year in the second half of the year due to more difficult conditions, meaning that, contrary to our original expectations, the revenue in the full year fell slightly. The KAP Group's segment companies were able to pass the significant price increases on the procurement side on to customers, but only with a time lag. The forecasts on key KPIs in the segments for the 2021 financial year published in the 2020 Annual Report did not take into account turbulence on global German markets in the second half of the year, which were not yet foreseeable at this time. This resulted in deviations in the forecast/actual comparison.

In the course of the 2021 financial year, the KAP Group continued the extensive measures serving to mitigate the Covid-19 pandemic and protect staff. In 2021, although there were no temporary closures of production sites, the option of reduced working hours was used at six sites in Germany in phases of lower workload.

The considerable turbulence in international supply chains persists in the first quarter of the 2022 financial year and continues to impact the KAP Group's business.

**Forecast/actual comparison**

| in € millions | 2020 | 2021 forecast[2] | 2021 result |
|---|---|---|---|
| Group[1] | | | |
| Revenue | 322.7 | 320–350 | 345.6 |
| Normalised EBITDA | 30.4 | 32–38 | 35.0 |
| Investments[3] | 21.1 | Significant increase | 31.6 |
| | | | |
| **flexible films** | | | |
| Revenue | 100.1 | Slight decrease | 128.4 |
| Normalised EBITDA | 14.8 | Slight decrease | 18.2 |
| Investments[3] | 2.0 | Significant increase | 4.1 |
| | | | |
| **engineered products** | | | |
| Revenue | 127.0 | Significant decrease | 118.0 |
| Normalised EBITDA | 4.8 | Significant increase | 7.6 |
| Investments[3] | 1.8 | Significant increase | 5.4 |
| | | | |
| **surface technologies** | | | |
| Revenue | 53.5 | Significant increase | 57.6 |
| Normalised EBITDA | 10.2 | Significant increase | 10.4 |
| Investments[3] | 14.9 | Significant decrease | 15.4 |
| | | | |
| **precision components** | | | |
| Revenue | 39.6 | Significant increase | 38.8 |
| Normalised EBITDA | 1.9 | Stable | 1.6 |
| Investments[3] | 2.3 | Significant increase | 6.5 |

[1] Continuing operations (excl. it/services).
[2] The segments' forecasts published in the 2020 Annual Report did not take account of the considerable turbulence in global supply chains due to the coronavirus pandemic because this was not yet foreseeable at the time of publication.
Explanatory notes on the expected development:
– "Slight increase"/"decrease": change of +/–1 to 10%
– "Significant increase"/"decrease": change > +/–10%
– "Stable": change of +/–1%
[3] Intangible assets and property, plant and equipment excluding leasing.

## SIGNIFICANT EVENTS

In the reporting period, KAP systematically continued the strategic and operating improvement initiatives within the framework of Accelerate that were planned for financial year 2021 and did so more quickly than planned. For example, the Group successfully completed the sale of the it/services segment with the sale of its subsidiaries MEHLER Engineering und Service and it-novum. In addition, it invested to a greater degree in the expansion of existing production sites, such as the sites in Hessisch Lichtenau and Döbeln, and invested in the completely new production site in Jasper, Alabama (USA). In the **flexible films** segment, KAP acquired the Dutch company AerO Coated Fabrics B.V. and acquired the remaining shares in NOW Contec GmbH. In addition, KAP AG was able to successfully complete the sale of its commercial property in Fulda in November.

The sale of KAP AG's commercial property in Fulda was completed after all the conditions agreed in the contract were met in the year under review. Most parts of the commercial property were thus transferred to the new owners CPI Falcon GmbH and CPI Falcon II GmbH at the end of 30 November 2021. Part of the property was immediately leased back in a sale-and-leaseback transaction. As planned, a small part of the building was not sold. Negotiations with other potential buyers remain ongoing.

## GENERAL EXPLANATIONS REGARDING THE CONSOLIDATED GROUP

MEHLER Engineering und Service GmbH was sold with effect as of 1 January 2021 and it-novum GmbH with effect as of 30 June 2021. In accordance with IFRS 5, the subsidiaries sold in the it/services segment must be accounted for as discontinued operations in the consolidated financial statements. The it/services segment, which was sold, generated revenue of €7.3 million in 2021 (previous year: €17.0 million). The statements in this combined management report on the KAP Group's business performance, financial performance, cash flows and financial position therefore take account only of the business development of continuing operations (excluding the it/services segment).

KAP AG's acquisition of 100% of the shares in plastic specialist Haogenplast Ltd. did not complete until 8 February 2022 and thus did not affect the 2021 consolidated financial statements.

# PERFORMANCE

## FINANCIAL PERFORMANCE

**Selected key indicators on financial performance**

| | | 2021 [1] | 2020 [1,5] | Change (%) |
|---|---|---|---|---|
| Revenue | € millions | 345.6 | 322.7 | 7.1 |
| EBITDA | € millions | 56.6 | 33.2 | 70.5 |
| Normalised EBITDA [2] | € millions | 35.0 | 30.4 | 15.0 |
| Normalised EBITDA margin [3] | % | 10.1 | 9.4 | 0.7 PP |
| Depreciation, amortisation and impairments | € millions | 25.2 | 30.0 | –16.0 |
| Normalised operating result (EBIT) | € millions | 9.9 | 0.5 | > 100 |
| Operating result (EBIT) | € millions | 31.4 | 3.2 | > 100 |
| Financial result | € millions | –3.1 | –7.5 | 58.7 |
| Earnings before taxes (EBT) | € millions | 28.3 | –4.2 | > 100 |
| Earnings from continuing operations | € millions | 21.7 | –4.3 | > 100 |
| Consolidated annual result after taxes | € millions | 39.9 | –2.7 | > 100 |
| Earnings per share | € | 5.14 | –0.35 | > 100 |
| Dividend per share | € | 1.00 [4] | 1.75 | –42.9 |

[1] Continuing operations (excl. it/services).
[2] See overview of special items and non-recurring effects (page 47).
[3] Normalised EBITDA/revenue.
[4] Proposal for the distribution of retained earnings
[5] The key indicators are changed due to adjustments in the it/services segment.

In the 2021 financial year, the KAP Group's revenue increased by 7.1% to €345.6 million (previous year: €322.7 million). As in the previous year, currency effects have a material impact in the reporting year.

All the KAP Group's target markets developed positively. Revenue increased by 4.6% in Germany and increased even more significantly by 10.4% in the rest of Europe. In North/South America, moderate growth of 3.1% was achieved. There was also positive impetus from Asia with revenue growth of 7.4%. The proportion of revenue from Germany decreased slightly to 35.9% (previous year: 36.8%). On the other hand, the proportion in the rest of Europe increased to 44.9% (previous year: 43.6%). The North/South America region amounts to 9.7% (previous year: 10.0%). Asia's revenue contribution of 9.2% remains stable (previous year: 9.2%). In total, the foreign share of total revenue thus increased slightly by 0.9 percentage points to 64.1% (previous year: 63.2%).

**Revenues by region**

| in € millions | 2021 | 2020 | Change (%) |
|---|---|---|---|
| Germany | 124.2 | 118.7 | 4.6 |
| Rest of Europe | 155.4 | 140.8 | 10.4 |
| North/South America | 33.6 | 32.4 | 3.7 |
| Asia | 31.8 | 29.6 | 7.4 |
| Other regions | 0.6 | 1.2 | –50.0 |
| **Total** | **345.6** | **322.7** | **7.1** |

Inventories of finished goods and work in progress increased by €5.8 million (previous year: decrease of €13.1 million), which was largely due to the general consolidation of the macroeconomic situation at year end and risk provisioning for possible supply chain disruption. Other own work capitalised was €1.0 million (previous year: €0.4 million). Total performance thus increased to €352.4 million (previous year: €309.0 million).

Other operating income increased by 61.9% to €47.1 million in the reporting year (previous year: €29.1 million) and mainly comprises income from the sale of the commercial property in Fulda, income from insurance compensation in connection with the fire damage at the site in Spartanburg (USA) from 2020, rental income, exchange rate gains and income from the reversal of provisions. Other operating income also includes reversals of impairment losses on property, plant and equipment in the **engineered products** area. The reversals needed to be made after the restructuring in this area was completed and the business performed well in the past financial year.

Cost of materials increased by 21.6% to €193.3 million (previous year: €158.9 million) and the ratio of cost of materials to total performance increased by 3.4 percentage points to 54.8% (previous year: 51.4%). This growth reflects the supply chain issues, which became increasingly acute in the second half of the year with sharp increases in prices of raw materials. KAP can only pass these price rises on to customers with a delay. Personnel expenses fell by 4.2% to €87.0 million in the reporting year (previous year: €90.9 million). The ratio of personnel expenses to total performance was 24.7% and thus 4.7 percentage points lower than the previous year's figure of 29.4%. The decrease was due to the impact of the pandemic in the previous year and the recovery in the past financial year. There was also a significant decrease in severance payments compared to the previous year. Other operating expenses increased by 13.6% to €62.7 million (previous year: €55.2 million). This was caused, in particular, by increases in the costs for maintenance, outgoing freight, packaging material, consultancy services and exchange rate losses.

Normalised EBITDA rose by 15.0% to €35.0 million (previous year: €30.4 million). Almost all segments contributed to this positive development. Only the **precision components** segment saw a decrease in normalised EBITDA year on year. This key earnings KPI eliminates special items and non-recurring effects and thus increases the transparency of operating development and the comparability of individual key indicators over time. In the year under review, the normalisations comprised a net volume totalling €–21.5 million (previous year: €–2.8 million). Ignoring all special items and non-recurring effects, EBITDA increased by 70.5% to €56.6 million (previous year: €33.2 million).

The normalisations mainly result from the sale of the commercial property in Fulda at a profit of €14.7 million and income from asset sales amounting to €2.1 million. Moreover, transaction-related expenses of €2.1 million and severance payment expenses of €0.9 million were normalised. In connection with the restructuring process completed in the **engineered products** segment, €6.2 million in income from reversals of impairments of property, plant and equipment was normalised. The following table shows the normalisations in full:

**Overview of special items and non-recurring effects**

| in € millions | 2021 | 2020 | Change (%) |
|---|---|---|---|
| EBITDA | 56.6 | 33.2 | 70.5 |
| Severance payments | 0.9 | 6.7 | –86.6 |
| Reversal of impairment losses on property, plant and equipment in the engineered products segment | –6.2 | –4.4 | 40.9 |
| Transaction-related advice fees | 2.1 | 2.2 | –4.5 |
| Sale of Fulda commercial property | –14.7 | 0.0 | n.m. |
| Result from asset sales* | –2.1 | 0.0 | n.m. |
| Net balance of fire damage in the surface technologies segment | –0.7 | –8.3 | –91.6 |
| Other | –0.8 | 1.0 | n.m. |
| Normalised EBITDA | 35.0 | 30.4 | 15.0 |

* In 2021, the complete gains/losses from the sale of non-current assets were normalised for the first time. The comparable figure for the previous year is €–0.1 million.

In the year under review, depreciation, amortisation and impairments decreased significantly overall, falling by 16.0% to €25.2 million (previous year: €30.0 million). Depreciation and amortisation in the Group decreased by €2.6 million to €25.2 million. The decrease in depreciation, amortisation and impairment results from a decrease in property, plant and equipment on average for the year, which only exceeded the low level on the reporting date in the previous year again due to increased investing activities in the fourth quarter. Depreciation of assets held under leases was €2.4 million (previous year: €2.0 million).

The operating result/EBIT, which was strongly impacted by non-recurring effects, improved significantly by €28.2 million to €31.4 million in the reporting year (previous year: €3.2 million). The financial result improved significantly from €–7.5 million to €–3.1 million as a result of lower interest expenses and of exchange rate gains from financing activities. Earnings before taxes (EBT) thus improved to €28.3 million (previous year: €–4.2 million). Current income taxes amounted to €7.0 million (previous year: €1.9 million). Taking into account deferred tax income from temporary valuation differences and the tax loss carry-forwards totalling €0.4 million (previous year: €1.8 million), income tax expense totalled €6.6 million (previous year: €0.1 million). Gains/losses from discontinued operations amounted to €18.2 million (previous year: €1.7 million). In addition to gains/losses from the sale of the discontinued it/services business, this item also includes the changes from the liability obligations assumed towards the acquirer of the MVS Group.

The consolidated annual result after taxes improved significantly from €–2.7 million to €39.9 million. Earnings per share thus rose from €–0.35 to €5.14.

## Segment development

### flexible films segment

**Selected key indicators on development in the flexible films segment**

| | | 2021 | 2020 | Change (%) |
|---|---|---|---|---|
| **flexible films** | | | | |
| Revenue | € millions | 128.4 | 100.1 | 28.3 |
| EBITDA | € millions | 18.1 | 14.8 | 23.0 |
| Normalisations | € millions | 0.1 | 0.0 | n.m. |
| Normalised EBITDA | € millions | 18.2 | 14.8 | 23.0 |
| Normalised EBITDA margin | % | 14.2 | 14.8 | –0.6 PP |
| Investments | € millions | 4.1 | 2.0 | > 100 |
| Employees as of 31 December | | 375 | 321 | 16.8 |

The **flexible films** segment continued its growth course in 2021. Thanks to its leading position in the respective niche markets, it reported sales growth of 28.3% to €128.4 million (previous year: €100.1 million). The increase in revenues is particularly due to the increase in unit sales in the areas of swimming pool liners and construction and the acquisition of the extrusion specialist AerO Coated Fabrics in the first quarter of 2021.

The flexible films segment was affected by a significant increase in the prices of raw materials in the procurement of PVC and plasticisers. It was only possible to pass the price rises on to the segment's customers with a time lag.

Normalised EBITDA increased by 23.0% to €18.2 million (previous year: €14.8 million). In the reporting period, special items and non-recurring effects of €0.1 million were normalised. The normalised EBITDA margin fell by 0.6 percentage points to 14.2%, particularly due to the increase in prices of raw materials.

As part of Accelerate, KAP AG introduced various efficiency measures in the **flexible films** segment in the 2021 financial year. This includes not only the further professionalisation of purchasing and sales but also the optimisation of the use of raw materials and the improvement of product quality and productivity. In addition, the segment is working on further expanding its international procurement and sales structures by, for example, tapping new markets for window decorations.

The segment companies' capital expenditure on property, plant and equipment totalled €4.1 million in 2021 (previous year: €2.0 million). This is a significant year-on-year rise, which largely resulted from the various investments in connection with efficiency measures. In addition to these investments in property, plant and equipment, the acquisition of AerO Coated Fabrics also took place in the reporting year.

The number of staff increased by 16.8% to 375 as of 31 December 2021 in connection with the segment's growth (previous year: 321).

## engineered products segment

**Selected key indicators on development in the engineered products segment**

| | | 2021 | 2020 | Change (%) |
|---|---|---|---|---|
| **engineered products** | | | | |
| Revenue | € millions | 118.0 | 127.0 | –7.1 |
| EBITDA | € millions | 15.0 | 2.7 | > 100 |
| Normalisations | € millions | –7.4 | 2.1 | n.m. |
| Normalised EBITDA | € millions | 7.6 | 4.4 | 72.7 |
| Normalised EBITDA margin | % | 6.4 | 3.8 | 2.6 PP |
| Investments | € millions | 5.4 | 1.8 | > 100 |
| Employees as of 31 December | | 815 | 870 | –6.3 |

Revenue in the **engineered products** segment fell by 7.1% to €118.0 million (previous year: €127.0 million). The was largely due to the year-on-year decrease in production capacity as the result of a consolidation. This resulted from the final closure of two production sites – in Fulda and Jilemnice – in the second half of 2020, which was carried out as part of focusing the segment on higher-value products. Particularly in the second half of the year, **engineered products** was impacted by the considerable supply chain issues in the automotive industry. The resulting significant raw-material and transport cost increases on the procurement side could only be passed on to customers with a time lag.

Normalised EBITDA increased significantly by 72.7% to €7.6 million (previous year: €4.4 million). The normalised special items and non-recurring effects from the reporting period, which totalled €–7.4 million, largely comprise reversals of impairment losses on property, plant and equipment in connection with the restructuring completed in this segment and gains from the disposal of assets. The normalised EBITDA margin thus increased by 2.6 percentage points to 6.4%. This shows the success of the restructuring measures consistently implemented in this segment.

As part of Accelerate, KAP AG systematically continued the initiatives it had previously introduced in 2021. In the third quarter of 2021, KAP AG invested in the construction of a new, modern production hall and a textile laboratory at the Hessisch Lichtenau site. The investments also include an efficient, state-of-the-art production plant for manufacturing technical yarns with a technical afterburning system.

Investments thus increased significantly by 200% to €5.4 million (previous year: €1.8 million). In addition to the measures already implemented in the reporting period, they mainly comprise operational maintenance measures at the Hessisch Lichtenau site.

As at 31 December 2021, 815 people were employed in the **engineered products** segment (previous year: 870). This is equivalent to a year-on-year decrease of 6.3% and is largely due to the sale of the site in Jilemnice.

### surface technologies segment

**Selected key indicators on development in the surface technologies segment**

| | | 2021 | 2020 | Change (%) |
|---|---|---|---|---|
| **surface technologies** | | | | |
| Revenue | € millions | 57.6 | 53.5 | 7.7 |
| EBITDA | € millions | 11.0 | 18.5 | –40.5 |
| Normalisations | € millions | –0.6 | –8.3 | n.m. |
| Normalised EBITDA | € millions | 10.4 | 10.2 | 2.0 |
| Normalised EBITDA margin | % | 18.0 | 19.1 | –1.1 PP |
| Investments | € millions | 15.4 | 14.9 | 3.4 |
| Employees as of 31 December | | 750 | 769 | –2.5 |

In the **surface technologies** segment, revenue increased by around 7.7% to €57.6 million (previous year: €53.5 million). The general recovery in the automotive sector in the first half of 2021 initially had a positive impact on the segment companies' business development. In the second half of the year, however, this positive development slowed down. In particular, call-off reductions at large customers due to supply bottlenecks had an adverse effect, especially in the fourth quarter of 2021.

Normalised EBITDA increased by 2.0% to €10.4 million in the reporting period (previous year: €10.2 million) – net normalisations amounted to €–0.6 million. This amount exclusively concerns costs and insurance income in connection with the fire at our plant in Spartanburg (USA). The normalised EBITDA margin decreased by 1.1 percentage points to 18.0% as a result of various effects in connection with the supply chain issues (previous year: 19.1%).

As part of Accelerate, in this segment the KAP Group prioritised the rapid construction of the new site in Jasper in Alabama (USA) for its major customer Mercedes-Benz. KAP invested around €13.4 million in the 2021 financial year for this construction. Production at the new site started in the first quarter of 2022 and should contribute positively to the segment result in the 2022 financial year. Investments in the **surface technologies** segment were thus even higher than in the previous year at €15.4 million (previous year: €14.9 million).

As of 31 December 2021, 750 people were employed in the **surface technologies** segment – a slight decrease of 2.5% compared with the end of the previous year (769).

### precision components segment

**Selected key indicators on development in the precision components segment**

| | | 2021 | 2020 | Change (%) |
|---|---|---|---|---|
| **precision components** | | | | |
| Revenue | € millions | 38.8 | 39.6 | –2.0 |
| EBITDA | € millions | 2.2 | 1.8 | 22.7 |
| Normalisations | € millions | –0.6 | 0.1 | n.m. |
| Normalised EBITDA | € millions | 1.6 | 1.9 | –15.8 |
| Normalised EBITDA margin | % | 4.1 | 4.8 | –0.7 PP |
| Investments | € millions | 6.5 | 2.2 | > 100 |
| Employees as of 31 December | | 636 | 617 | 3.1 |

The **precision components** segment saw a slight decrease in revenue by 2.0% to €38.8 million in the 2021 financial year (previous year: €39.6 million). This is particularly due to weak business development in the fourth quarter, caused by the supply bottlenecks in semiconductors on the customer side. Particularly in the second half of the year, this resulted in shifts in customer demand, which had a noticeable impact on the segment companies' business development.

Normalised EBITDA reduced by 15.8% to €1.6 million in 2021 (previous year: €1.9 million). Overall, the normalisations made amounted to €–0.6 million. The normalised EBITDA margin decreased by 0.7 percentage points to 4.1% (previous year: 4.8%). This development is a consequence of the slump in business activities in the fourth quarter in connection with the semiconductor crisis and the supply chain issues.

During the reporting period, KAP launched various sales offensives in the area of e-bikes, which will have positive revenue and earnings effects in the first half of 2022. In order to achieve permanently competitive offer prices for Western European and local customers, corresponding expansion plans are under review for our Eastern European sites.

Investment spending increased significantly to €6.5 million (previous year: €2.2 million). It was largely accounted for by investments in a new plant for producing components for e-bikes.

The number of staff increased by 3.1% to 636 people as of 31 December 2021 (previous year: 617).

## CASH FLOWS

**Principles and goals of financial management**

The financial management of the KAP Group includes the procurement of equity and debt, liquidity management and the management of interest rate and currency risks. The Group Treasury department assumes the management for this for all segments in the Group. A central cash-pooling system forms the basis for the liquidity management. The overarching goal is to ensure that the Group and the individual segments always have sufficient and permanent liquidity at the lowest possible costs. Another component of our financial management is the optimisation of working capital. By means of active management, we want to make an additional, positive contribution to the creation of additional cash and cash equivalents, to the reduction of the debt to equity ratio and to the optimisation of the capital structure. The use of derivative financial instruments can generally be a suitable means of limiting market price risks. The conditions and control mechanisms necessary for the use of these instruments are set out in internal policies. As in the previous year, no derivatives were used in the year under review.

**Contingent liabilities and other financial obligations**

In the 2021 financial year, contingent liabilities and other financial obligations amounted to €10.6 million (previous year: €4.6 million), of which €9.1 million (previous year: €3.2 million) was accounted for by purchase commitments for property, plant and equipment, €0.6 million by purchase commitments for investment properties (previous year: €0.7 million) and €0.9 million (previous year: €0.0 million) by guarantees.

### Capital structure and liquidity

**Development of net debt**

| in € millions | 2021 | 2020 | Change (%) |
|---|---|---|---|
| Non-current financial liabilities | 26.7 | 59.1 | –54.8 |
| + Current financial liabilities | 43.1 | 11.5 | > 100 |
| Financial liabilities | 69.7 | 70.6 | –1.3 |
| – Cash and cash equivalents | 17.4 | 15.7 | 10.8 |
| Net debt | 52.3 | 54.9 | –4.7 |

Financial liabilities fell slightly by 1.3% to €69.7 million as of 31 December 2021 (previous year: €70.6 million). Liabilities to banks fell by 15.4% to €47.2 million (previous year: €55.9 million). €6.7 million of this (previous year: €46.9 million) was accounted for by liabilities with a remaining term of more than one year and €40.5 million (previous year: €9.0 million) by liabilities with a remaining term of less than one year. The majority of the credit agreements were concluded in euros. There are liabilities to banks of €0.7 million (previous year: €0.9 million) in US dollars and Chinese renminbi. The ratio of liabilities to banks to total assets decreased by 4.0 percentage points to 13.8% (previous year: 17.8%).

A key component of the financing is the syndicated loan agreement concluded in 2017 with a term until August 2022 and a maximum volume of €113 million. The drawdown was €38.0 million as of 31 December 2021 (previous year: €43.7 million). The interest rate is at least 1.5% and depends on Euribor and the net debt ratio. The agreement made provides for margins between 1.5% and 2.7% above Euribor. In 2021, the interest rates we had to pay overall for liabilities to banks were between 1.4% and 4.3% (previous year: 1.4% and 4.3%).

Lease liabilities increased to €22.5 million (previous year: €13.9 million). Leasing the building for our new site in Jasper (USA) particularly contributed to the rise.

Taking account of the increased cash and cash equivalents of €17.4 million (previous year: €15.7 million), net debt as of the end of the 2021 financial year further decreased by 4.7% to €52.3 million (previous year: €54.9 million).

## Cash flow and investments

**Selected key indicators on cash flows**

| in € millions | 2021 | 2020 | Change (%) |
|---|---|---|---|
| Cash flow from operating activities | 8.3 | 55.2 | –85.0 |
| Cash flow from investing activities | 18.4 | –21.0 | > 100 |
| Cash flow from financing activities | –24.8 | –23.1 | –7.4 |
| Net change in cash and cash equivalents | 1.9 | 11.1 | –88.3 |
| Effect of changes in foreign exchange rates and consolidated group on cash and cash equivalents | –0.2 | –0.2 | – |
| Cash and cash equivalents at end of period | 17.4 | 15.7 | 10.8 |

Cash flow from operating activities reduced by 85.0% to €8.3 million in the 2021 financial year (previous year: €55.2 million). The decrease largely results from the decrease in receivables in the previous year and from the increase in inventories as a result of the increase in business activities and increased provisioning in the year under review to hedge supply chain risks. The sharp rise in inventories offsets the decrease in trade receivables in the reporting year caused by the introduction of factoring. At the same time, cash flow from operating activities was adversely affected by higher cash outflows from income tax payments and the run-off of provisions.

Cash flow from investing activities increased significantly by €39.4 million to €18.4 million (previous year: €–21.0 million). The positive cash flow in the reporting year results from proceeds in connection with the sale of the commercial property in Fulda (€30.4 million) and the sale of the IT segment (€19.3 million). Investment was increased in the **flexible films** and **surface technologies** segments in particular. In particular, the acquisition of AerO Coated Fabrics B.V. (€–7.2 million) and the construction of the new production site in Alabama, USA (€–13.4 million) should be mentioned here. Overall, payments for investments in property, plant and equipment including investment properties and excluding leasing increased from €21.6 million to €30.1 million. Proceeds from the disposal of property, plant and equipment including investment properties amounted to €7.1 million (previous year: €0.3 million). Payments for investments in intangible assets rose to €1.2 million.

The negative cash flow from financing activities increased by €1.7 million in the reporting year to €–24.8 million (previous year: €–23.1 million). This was primarily due to dividends paid to shareholders of KAP AG for the 2020 financial year of €13.6 million (previous year: €0.0 million). The repayments of financial liabilities amounted to €23.9 million (previous year: €52.0 million). Cash inflow from borrowing amounted to €15.0 million (previous year: €28.8 million). Furthermore, there were cash outflows of €2.3 million in the reporting year due to the acquisition of the minority interests in NOW Contec GmbH & Co. KG and Convert Vliesveredelung GmbH & Co. KG.

Cash and cash equivalents amounted to €17.4 million as of 31 December 2021 (previous year: €15.7 million). The free cash flow, as the difference between cash inflow from operating activities and cash outflow for payments for investments in intangible assets, property, plant and equipment including investment properties and financial assets, decreased to €26.7 million due to the lower operating cash flow (previous year: €34.2 million).

**Calculating the free cash flow**

| in € millions | 2021 | 2020 | Change (%) |
|---|---|---|---|
| Cash flow from operating activities | 8.3 | 55.2 | –85.0 |
| Payments for the addition of consolidated companies less cash and cash equivalents acquired | –7.2 | 0.0 | > 100.0 |
| Proceeds from the disposal of consolidated companies | 19.3 | 0.0 | > 100.0 |
| Proceeds from disposals of property, plant and equipment including investment properties | 37.5 | 0.3 | > 100.0 |
| Payments for investments in property, plant and equipment including investment properties | –30.1 | –21.6 | –38.9 |
| Other proceeds and payments | –1.1 | 0.4 | > 100 |
| Free cash flow | 26.7 | 34.2 | –21.9 |

## Working capital

Working capital rose by 9.2% to €73.5 million as of 31 December 2021 (previous year: €67.3 million). The increase largely results from the increase in inventories to prepare for the shortage of raw materials in procurement markets. Trade receivables reduced by 11.3% to €38.4 million (previous year: €43.3 million), while trade payables increased by 30.2% to €24.5 million (previous year: €18.8 million). The reduction in receivables despite increased business activities is a result of the introduction of a factoring programme.

**Working capital**

| in € millions | 2021 | 2020 | Change (%) |
|---|---|---|---|
| Inventories | 59.6 | 42.8 | 39.2 |
| + Trade receivables | 38.4 | 43.3 | –11.3 |
| – Trade payables | 24.5 | 18.8 | 30.2 |
| **Total** | **73.5** | **67.3** | **9.2** |

## FINANCIAL POSITION

As of 31 December 2021, the KAP Group's total assets totalled €342.1 million and were thus 9.3% higher than the level as of year-end 2020.

**Balance sheet structure – assets**

| in € millions | 2021 | 2020 | Change (%) |
|---|---|---|---|
| **Non-current assets** | **214.7** | **185.2** | **15.9** |
| Intangible assets | 35.9 | 27.8 | 29.1 |
| Property, plant and equipment | 172.3 | 149.9 | 14.9 |
| Investment properties | 1.9 | 2.0 | –5.0 |
| Other financial assets | 0.2 | 0.2 | 0 |
| Deferred tax assets | 4.4 | 5.3 | –17.8 |
| **Current assets** | **126.9** | **112.7** | **12.6** |
| Inventories | 59.6 | 42.8 | 39.3 |
| Trade receivables | 38.4 | 43.3 | –11.3 |
| Income tax receivables | 1.2 | 1.1 | 9.1 |
| Other receivables and assets | 10.3 | 9.8 | 5.1 |
| Cash and cash equivalents | 17.4 | 15.7 | 10.8 |
| **Non-current assets held for sale and discontinued operations** | **0.5** | **15.2** | **–96.7** |
| **Total liabilities and equity** | **342.1** | **313.1** | **9.3** |

On the assets side, non-current assets increased by 15.9% to €214.7 million (previous year: €185.2 million). Intangible assets increased by 29.1% to €35.9 million (previous year: €27.8 million). The increase is due, in particular, to intangible assets in connection with the acquisition of AerO Coated Fabrics B.V. in the Netherlands. Property, plant and equipment increased by 14.9% to €172.3 million (previous year: €149.9 million) and result mainly from investments in our new site in Jasper (USA). Because the site in the USA is leased, assets under leases in accordance with IFRS 16 thus also rose to €21.0 million in the 2021 financial year (previous year: €13.8 million). Investment properties decreased by 5.0% to €1.9 million (previous year: €2.0 million). Deferred tax assets decreased by 17.8% to €4.4 million (previous year: €5.3 million).

Current assets increased by 12.6% to €126.9 million (previous year: €112.7 million). This was largely due to the 39.3% increase in inventories to €59.6 million (previous year: €42.8 million). Trade receivables decreased by 11.3% to €38.4 million (previous year: €43.3 million). Cash and cash equivalents increased by 10.8% to €17.4 million (previous year: €15.7 million).

The non-current assets held for sale in the previous year concerned the commercial property in Fulda, which was sold in the reporting year. The remaining €0.5 million in this item in the reporting year concern a small part of a building that is still in the process of being sold. The discontinued operations in the previous year concerned the assets from the it/services segment, which were sold in full in the 2021 financial year.

**Balance sheet structure – liabilities and equity**

| in € millions | 2021 | 2020 | Change % |
|---|---|---|---|
| **Equity** | **182.7** | **154.4** | **18.4** |
| Subscribed capital | 20.2 | 20.2 | 0 |
| Capital reserve | 86.9 | 86.8 | 0.1 |
| Reserves | –16.7 | –20.4 | 18.1 |
| Net result | 91.7 | 65.4 | 40.1 |
| **Equity attributable to shareholders of KAP AG** | **182.1** | **152.1** | **19.8** |
| Non-controlling interests | 0.5 | 2.3 | –78.3 |
| **Non-current liabilities** | **49.9** | **84.0** | **–40.6** |
| Provisions for pensions and similar obligations | 16.7 | 18.3 | –8.7 |
| Non-current financial liabilities | 26.7 | 59.0 | –54.8 |
| Deferred tax liabilities | 6.5 | 6.7 | –1.7 |
| **Current liabilities** | **109.5** | **69.8** | **56.8** |
| Other provisions | 22.9 | 27.1 | –15.5 |
| Current financial liabilities | 43.1 | 11.5 | > 100.0 |
| Trade payables | 24.5 | 18.9 | 29.6 |
| Income tax liabilities | 7.6 | 5.0 | 54.1 |
| Other liabilities | 11.3 | 7.5 | 52.1 |
| **Liabilities in connection with discontinued operations** | **0.0** | **4.9** | **–100.0** |
| **Total liabilities and equity** | **342.1** | **313.1** | **9.3** |

On the liabilities and equity side, equity increased by 18.4% to €182.7 million (previous year: €154.4 million). The increase is largely due to the significant improvement in the consolidated annual result after taxes to €39.9 million (previous year: €–2.7 million). Currency effects charged directly to equity totalled €3.9 million (previous year: €–4.1 million). The dividend of €13.6 million decided and distributed in the reporting year had a negative impact. Non-current liabilities fell by 2.5% to €81.8 million (previous year: €84.0 million). Provisions for pensions and similar obligations decreased by 8.7% to €16.7 million (previous year: €18.3 million). Non-current financial liabilities fell significantly to €26.7 million (previous year: €59.0 million). The background to this is the syndicated loan, which expires in August 2022 and was not rearranged until April 2022. Deferred tax liabilities amounted to €6.5 million and were thus 1.7% below the level of the previous year (previous year: €6.7 million).

Current liabilities increased by 56.8% to €109.5 million (previous year: €69.8 million). Particularly as a result of lower provisions for profit-sharing, severance payments, guarantees and warranties, other provisions decreased by 15.5% to €22.9 million (previous year: €27.1 million). Current financial liabilities increased significantly to €43.1 million (previous year: €11.5 million) due to the syndicated loan, which expires in August. Trade payables increased by 29.6% to €24.5 million due to increased business activities (previous year: €18.9 million). Other liabilities increased by 52.1% to €11.3 million (previous year: €7.5 million). The reason for the increase is the recognition of a call option in connection with the acquisition of the shares in AerO Coated Fabrics B.V. in the Netherlands. Under the call option, KAP has the right to acquire the remaining shares at a defined price. The exercise of the option is classified as economically advantageous and can take place no earlier than 1 January 2023. Pursuant to IFRS, the current fair value of the option must be shown under other liabilities instead of minority interests within equity.

The liabilities in connection with discontinued operations related to the liabilities of the it/services segment, which were part of the sale.

## NON-FINANCIAL PERFORMANCE INDICATORS

### EMPLOYEES

The KAP Group employed a total of 2,632 employees as of 31 December 2021 (previous year: 2,736 employees). The decrease by 104 employees is particularly due to the sale of the IT segment.

In Germany, the number of employees decreased by 132 to 1,254 as of 31 December 2021 (previous year: 1,386 employees). In the Rest of Europe region, the KAP Group had 1,097 employees (previous year: 1,114 employees). In the North/South America region, the Group had 102 employees (previous year: 97 employees) and in the Asia region it had 179 employees (previous year: 139 employees). Germany is still the location where the largest proportion of our staff are employed. However, the trend towards internationalisation of the operating business, which had become apparent in previous years apart from 2020, continued in 2021. For example, the proportion of employees in Germany increased by 3.0 percentage points to 47.7% (previous year: 50.7%).

**Selected key indicators on employees**[1]

| | 2021 | 2020 | Change (%) |
|---|---|---|---|
| **By region** | | | |
| Germany | 1,254 | 1,386 | –9.5 |
| Rest of Europe | 1,097 | 1,114 | –1.5 |
| North/South America | 102 | 97 | 5.2 |
| Asia | 179 | 139 | 28.8 |
| **Total** | **2,632** | **2,736** | **–3.8** |
| | | | |
| **By segment** | | | |
| flexible films | 375 | 321 | 16.8 |
| engineered products | 815 | 870 | –6.3 |
| surface technologies | 750 | 769 | –2.5 |
| precision components | 636 | 617 | 3.1 |
| it/services | 0 | 122 | –100.0 |
| **Other** | **56** | **37** | **51.4** |
| **Total** | **2,632** | **2,736** | **–3.8** |

[1] As of the end of the financial year on 31 December in each case.

**Training and continuing education**

The aim of the overarching personnel strategy is to position the KAP Group and its individual subsidiaries as attractive employers in an increasingly global competition for the best specialist staff and managers. We attach great importance to a modern corporate culture and a working environment built on transparency, appreciation, openness and trust. An important benchmark for our attractiveness as an employer is our employees' high level of loyalty to our industrial group.

The skills and competencies of our employees are of decisive importance for our sustainable and successful development, which is why we attach great importance to their continuous learning and individual development. In doing so, we focus on continuing education and training programmes and offer our employees internal development opportunities according to their abilities and potential.

To attract motivated, efficient employees, we draw on a whole bundle of staff recruitment measures. At our German locations, we offer training in various professions, covering a wide range of commercial, technical and process engineering professions as well as professions in selected IT and electrical sectors. As of 31 December 2021, we employed a total of 37 trainees in the Group (previous year: 44). Building on our subsidiaries' training programmes, we offer personal incentives such as the financing of apprenticeships to become a master craftsman or technician. Our junior managers are largely recruited from vocational academies, but also from universities. We rely on our many years of close cooperation with schools, vocational academies and universities here. Our subsidiaries allocate study and development projects and support Master's dissertations in a range of topics.

**Diversity**

We cultivate diversity among our employees. Through the combination of people from different cultural backgrounds with different abilities, experiences and ways of thinking, we gain a better understanding of markets and customer groups. This is an important prerequisite for the long-term success of our Group. We attach great importance to a climate where diversity is practised and respect for the individual is an integral part of our corporate culture. We employ people from a wide variety of cultural backgrounds and countries of origin and with different religious affiliations. In Germany alone, we employ people from 38 different countries.

Even though the proportion of women in the Group, especially in our Eastern European locations, represents more than 50% of the total workforce in some cases, the proportion of women in the technical and scientific jobs that are important for us is too low. However, the proportion of female managers is encouraging. Women are represented at the level below senior management in almost all our companies and locations worldwide. The main emphasis here was primarily on commercial positions as well as on positions in sales and quality management.

**Healthcare and occupational health and safety**

We promote the health and safety of our employees by utilising comprehensive health management 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. Our health management programme is based on targeted analyses of clinical pictures in relation to the requirements of the various areas of activity in our subsidiaries. We carry out these analyses in partnership with occupational health doctors. Our goal is to reduce the burden on our employees and to reduce the risks that can arise from daily work and the working environment. This way, we can reduce absences by preventive means. One fixed aspect of our health management system includes customised options relating to prevention, treatment and rehabilitation. Our subsidiaries are obliged to comply with the established occupational health and safety guidelines at all times and to report occupational accidents immediately. This way, we ensure that we can take suitable measures and mitigate existing and possible dangerous situations by preventive means based on comprehensive analyses of each individual accident.

In light of the global Covid-19 pandemic, we have continued existing processes and systems for occupational safety. In order to protect employees and curb the further spread of Covid-19, employees in large parts of the Group worked from home as far as possible. In addition, staff training was conducted on minimising the risk of infection. Thanks to these steps rapidly taken, we were able to prevent internal chains of infection as far as possible and avoid bottlenecks as a result of production downtime.

# EVENTS AFTER THE BALANCE SHEET DATE

With regard to events after the reporting period, we also refer to the information under note 43 “Events after the balance sheet date” in the consolidated financial statements.

# FORECAST, OPPORTUNITY AND RISK REPORT

## FORECAST REPORT

### INTRODUCTION

All information provided in the forecast report relates to the 2022 financial year unless otherwise noted and represents our own estimates and expectations. The forecast takes account of our expectations for the further development of the pandemic and for the supply chain situation and the Russia-Ukraine war on the basis of the information available to us at the time of this Annual Report's preparation. As things stand, there will be consequences for the economy as a whole and the KAP Group that are fraught with a high degree of uncertainty but are already reflected in the adjusted forecast. The currently unforeseeable consequences of an intensification of the coronavirus crisis – particularly in China – and/or the consequences of the Russia-Ukraine war and the resulting sanctions are not taken into account in the forecast and may subsequently alter it.

### ECONOMIC EXPECTATIONS (BEFORE THE OUTBREAK OF THE RUSSIA-UKRAINE WAR)

According to the outlook the International Monetary Fund (IMF) published in January 2022, the IMF expects a further recovery for the current financial year, with global economic growth of 4.4%. The speed of recovery will vary significantly in the various countries and regions, depending on the Covid-19 pandemic's impact on supply chains and health services, and depending on forecast inflation and financial conditions.

The IMF expects 3.9% growth in gross domestic product (GDP) for the eurozone for 2022. Constrained supply chains are expected to limit growth.

For Germany, the ifo Institute therefore currently expects GDP to rise by 3.1%. Slowed economic growth is expected at the start of the year due to supply bottlenecks and the ongoing fourth wave of the coronavirus. From the second half of 2022, there is likely to be a strong recovery and normalisation of private consumption. Even in the case of supply bottlenecks, the ifo Institute expects the resulting production restrictions to be resolved in the second half of the year. The IMF forecasts GDP growth of 3.8%.

For the US, IMF economists expect slight growth because the financing environment will become less favourable with anticipated interest-rate hikes. Fiscal policy measures are also expected to be more minor than anticipated. The IMF expects economic growth of 4.0% in 2022.

As the vaccination campaigns in emerging markets and developing countries continue to progress, the IMF expects the impact of the Covid-19 pandemic to weaken in the course of 2022. Economic growth of 4.8% is anticipated. In China, restrictive pandemic measures are curbing economic activity.

## OVERVIEW OF ECONOMIC FORECASTS (BEFORE THE OUTBREAK OF THE RUSSIA-UKRAINE WAR)

**Economic environment** [1]

| Real change in GDP in % | 2021 | 2022 |
|---|---|---|
| World | 5.9 | 4.4 |
| Eurozone | 5.2 | 3.9 |
| Germany [2] | 2.7 | 3.8 |
| USA | 5.6 | 4.0 |
| Emerging economies | 6.5 | 4.8 |

[1] International Monetary Fund (IMF) – World Economic Outlook Update, January 2022.
[2] Destatis, press release of 14 January 2022.

## ECONOMIC FORECAST UPDATE

Due to the outbreak of the war between Russia and Ukraine, global economic expectations have dampened appreciably. The forecasts remain fraught with a high level of uncertainty because concrete predictions cannot yet be made about the impact of the Russia-Ukraine war.

In the second half of April 2022, the International Monetary Fund (IMF) significantly decreased its growth forecast for the global economy due to the Russian invasion of Ukraine. The IMF now only expects growth of 3.6% for 2022 – 0.8 percentage points less than was anticipated in January.

In Europe in particular, the IMF now expects lower growth rates and severe recessions in Russia. For the eurozone, the IMF expects growth of 2.8% and thus 1.1 percentage points less than previously anticipated.

In Germany, gross domestic product (GDP) is therefore expected to increase by only 2.1%. The previous estimate for 2022 thus decreased by 1.7 points.

In its macroeconomic projections for the eurozone published in March, the European Central Bank (ECB) projects that the economy will grow by 3.7% in 2022 (as of December 2021: +4.2%). The improvement expected overall is based on a number of supporting factors such as the decreasing economic impact of the pandemic, a gradual resolution of supply bottlenecks and an improvement in the price competitiveness of exports with respect to most important trading partners. By contrast, the conflict in Ukraine is expected to adversely affect growth in the eurozone. Although the Next Generation EU programme (NGEU) is expected to boost investments in some countries, the withdrawal of temporary state support measures mean that fiscal policy is likely to be less supportive, especially in 2022. Despite the rise in interest rates, which is included in the technical assumptions, financing conditions will remain favourable. Overall, the real GDP in the eurozone is expected to return to the path anticipated in the projections before the pandemic despite the worse outlook in the short term.

The IfW's forecast published in April 2022 anticipates slowed expansion with GDP growth of 3.5% for the global economy. Growth of 2.8% is forecast for the eurozone. In the US, growth is expected to slow to 3.1%. For Germany, the IfW now expects real gross domestic product of 2.1% (previously: 4.0%). The Ukraine conflict will delay the return to the pre-coronavirus-crisis level to the second half of the year. Production capacity will remain underutilised until the end of 2022 according to the latest expectations, and thus the economic outlook will fall short of its potential.

## MAJOR MARKET TRENDS

Our segments operate in a large number of attractive market niches and have a strong market position there. Dynamic market developments, such as in the automotive sector, and the investment behaviour of other industrial sectors impact the development of our segments. The German Association of the Automotive Industry (VDA) expects similar unit sales growth to the previous year for the global passenger car market of 4%. This means the global passenger car market would still fall short of its peak level of 2017 by just under 13% in 2022. The markets in the USA and China are likely to grow by 2% according to the VDA; Europe is currently much further from the pre-crisis level and is likely to grow by 5% as a result of, among other things, catch-up effects. For 2022, the VDA expects the German market to grow by 7% to 2.8 million passenger cars. Domestic production of 3.5 million units is expected for 2022. This is an increase of 13% but only corresponds to the production level of 2020. Production in the automotive sector and in other technical sectors will continue to be limited by supply bottlenecks and the restricted availability of semiconductors in 2022, particularly in the first half of the year. In the second half of the year, a recovery is expected in this respect according to LBBW, but it may not be possible to satisfy existing demand due to the semiconductor shortage. The sector experts also expect the high growth of the market shares of electric and hybrid vehicles to continue in 2022. The German construction industry is proving largely resistant to the economic swings of the coronavirus pandemic according to the German Institute for Economic Research (DIW Berlin). It expects construction output to grow by around 3% in real terms in 2022. The impact of the Russia-Ukraine war is not yet reflected in these sector forecasts.

## FUTURE DEVELOPMENT OF THE KAP GROUP AND THE SEGMENTS

For the 2022 financial year, we plan to continue to systematically implement defined milestones as part of our Accelerate strategy programme. We want to develop our segments accordingly through targeted investments and optimisations. The clear focus until the end of 2023 is increasing profitability. We aim to achieve a target operating margin measured by normalised EBITDA of at least 10% in all segments. At the same time, we want to lay the foundations for future growth in attractive market niches through increased research and development activities.

## OVERALL STATEMENT OF THE MANAGEMENT BOARD ON THE FORECAST OF FINANCIAL PERFORMANCE FOR 2022

For the 2022 financial year, we expect the KAP Group's business development to be noticeably impacted by a very volatile market environment and considerable disruptions in supply chains.

Due to our diversified investment model and the strong market positioning of our segments in their niche markets, despite the volatile and, as a result of the Russia-Ukraine war, uncertain market environment, we expect a clear increase in revenues compared with the previous year and the operating result to be slightly higher than in the previous year. Our overall assessment takes account of the effects on the KAP Group's business development of the

Russia-Ukraine war and the ongoing coronavirus pandemic foreseeable at the time of this report's preparation. Additional effects resulting from the ongoing coronavirus pandemic and the Russia-Ukraine war that were not yet accurately predictable at the time of this report's preparation may subsequently change the forecast. The Management Board is intensively reviewing various measures to compensate for these effects as well as possible.

# OPPORTUNITY AND RISK REPORT

## RISK MANAGEMENT SYSTEM

As an internationally active industrial group, the KAP Group is exposed to numerous internal and external developments and events. We want to identify the risks arising from this at an early stage and take the necessary measures in the areas affected in good time so we can sustainably increase the value of the Group. We support this overarching goal with our Group-wide risk management system, which is a key instrument of our corporate governance. Risks are defined as events and possible developments that lead to potential deviations from the plan and can therefore have a negative impact on the financial situation and financial performance or the reputation of the Group.

We cover all strategic, operational and financial risks as well as compliance risks with our Group-wide risk management system, which we continuously optimise and develop. The stated goal is to identify, assess, monitor and adequately manage risks completely at an early stage. In our Group and segment companies, the risk management staff regularly review relevant processes, procedures and developments for existing risks and record these comprehensively at an early stage on the basis of a defined risk catalogue. This means we can act flexibly and thus identify and assess risks at an early stage and take consistent action on them. These are essentially broken down into the following key risk areas: strategic risks, company-specific risks, financial risks and compliance risks.

The relevant risks are assessed particularly taking into account the risk potential for our EBITDA and the probability of occurrence. To assess the risks, we record the risk potential and multiply it by the probability of occurrence analysed for this specific risk. On this basis, we determine the gross risk. By implementing measures, we reduce the gross risk, with the result that this gives us the net expected value (earnings effect on EBITDA) of the potential risk:

**Classification of risks**

| Probability of occurrence | % |
|---|---|
| Low | < 25% |
| Medium | 25–50% |
| High | > 50% |

In 2021, a new step was added to the process of risk assessment and risk management. Previously, the risks were calculated by multiplying the expected effects by the probability of occurrence. This calculation did not take account of the risks' correlations and extensive aggregations. These have now been taken into account to obtain a better overall picture of the global risk position.

The calculation takes place in a central system where combined effects and correlations are calculated using a risk aggregation model to obtain the Group's global risk position. This system can be used to generate comprehensive risk reports. This means we always have a detailed overview of all risks that could materially impair the KAP Group's financial position, cash flows and financial performance. The risk managers responsible for the individual business units undertake the formal documentation of the reporting at the end of the year using uniformly defined standards. In addition to risk identification, risk recording and risk reporting, risk managers' core tasks include the early introduction and implementation of individual measures that serve to avoid, reduce or limit risks. An assessment of the information recorded and the classification of the risks are carried out centrally in the Group.

In principle, opportunity and risk management is the responsibility of the Management Board. Among other methods, management reporting serves to provide information on the current risk situation. This consists of comprehensive reporting, projections and updated planning, including investment planning. In addition, information and key figures that each segment or segment company uses individually for operational management are used. Accordingly, risks are reviewed and summarised on two levels. Beyond pre-defined reporting routines, the risk managers have an immediate obligation to report to the Management Board as soon as an identified risk could impact EBITDA by a deviation of more than 75% or of more than €0.5 million from the planned EBITDA.

## ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM (DISCLOSURES IN ACCORDANCE WITH SECTION 289 (4) OF THE GERMAN COMMERCIAL CODE (HGB)) AND EXPLANATORY REPORT

Together with the risk management system and the compliance system, the internal control system relating to the accounting process in the Group (ICS) is an integral part of corporate governance. The aim of the ICS is to implement controls to ensure sufficient certainty that the KAP Group's internal and external accounting is always in compliance with the rules and sufficient certainty of valid numerical mapping of the business processes.

Our accounting guidelines contain comprehensive organisational measures and clearly defined technical processes that include all Group companies. These are the basis for the Group-wide uniform application of International Financial Reporting Standards (IFRS). We have an internet-based financial portal that guarantees Group-wide access to all documents and resources relevant for the accounting process. We review the latest developments in IFRS centrally for relevance and, if necessary, promptly represent these in our internal accounting guidelines. We constantly monitor the activities of legislators and other organisations with regard to possible upcoming changes in international accounting standards to be able to initiate targeted measures for smooth implementation even before the regulations come into force. Intensive and early training of employees who are responsible for preparing internal and external accounts is an important measure here. These ad hoc training sessions supplement our ongoing training and the additional individual support provided to our subsidiaries by a professionally qualified contact at the Group level.

We achieve the complete and almost simultaneous compilation of the financial statements of our segment companies through Group-wide use of uniform consolidation software. Binding mandatory disclosures ensure that all the prescribed information is recorded within the individual subsidiaries. We largely rule out inconsistencies in the figures through intelligent plausibility checks. We ensure the conformity of the disclosures by comparing the reporting data of the financial statements with the risk management system. Prudent and forward-looking scheduling with regard to reporting and publication obligations, combined with early communication, makes an organisational contribution to orderly process flow.

## RISK REPORTING IN RELATION TO THE USE OF FINANCIAL INSTRUMENTS

We actively manage the interest rate risks and currency risks associated with our operating activities. Our goal is to reduce the negative effects of fluctuations in exchange rates and in interest rate levels. We mainly use natural hedging to minimise the risks from planned supply and service transactions.

We only use derivatives and forward exchange transactions for hedging currency risks to a very limited extent. We use forward exchange transactions – where necessary – only in the context of hedging relationships to hedge an underlying transaction that has already been recognised (fair value hedge). Constant risk control is undertaken here. Counterparties are always domestic and foreign banks with impeccable credit ratings. No financial instruments were used in 2021.

## RISKS AND OPPORTUNITIES

The following table contains all material opportunities and risks that, from today's perspective, could influence the financial position, cash flows, financial performance and reputation of the KAP Group. The significant risk areas are assessed according to risk potential and probability of occurrence. In addition to the opportunities and risks presented, other factors that are currently not yet known or that we do not yet consider to be material may affect our business activities. Unless explicitly stated otherwise, the opportunities and risks presented generally apply to all business segments.

**Overview of significant risk areas**

| Risk categories | Net expected value | Change compared to previous period |
|---|---|---|
| **Strategic risks** | | |
| Political, regulatory and legal conditions | Medium | = |
| Corporate governance | Low | > |
| Portfolio risks | Low | = |
| Environmental risks | Low | = |
| **Company-specific risks** | | |
| Sales and marketing | Medium | < |
| Materials management | Medium | = |
| Personnel | Low | > |
| IT/Organisation | Low | > |
| **Financial risks** | | |
| Liquidity and credit risk | Low | > |
| Interest rate risk | Low | > |
| Currency and inflation risk | Medium | = |
| **Compliance risks** | | |
| Legal risks | Medium | = |

> improved = unchanged < worse

**Strategic risks**

### Political, regulatory and legal conditions

The operating development of our segment companies depends on the development of the macroeconomic environment. In addition to economic risks, for example as a result of an unexpected economic downturn, increases in energy and commodity prices may represent risks for operating development. We reduce dependence on the development of individual sectors through diversification across multiple segments and a broad product portfolio within the segments, with which we address various areas of application. Dynamic decreases in demand from individual sectors of industry may adversely impact revenue and earnings development. The high level of specialisation and the strong market position within attractive niches reduce the general economic risk for our segments without being able to completely eliminate it. In addition, short- and medium-term effects of increasing political conflicts between China and America and between Russia and Western countries and from the Russia-Ukraine war are to be expected. Developments need to be closely monitored to minimise the impact as far as possible.

### Corporate governance

Risks arising from the management of our Group companies stem in particular from our decentralised organisational structure. Together with the segment managers, the Management Board periodically agrees the objectives and framework conditions of their business activities. The segment managers act independently when it comes to the detailed implementation of these requirements. We minimise the risk of deviating from our plans and undesirable developments in individual segments and segment companies through comprehensive controlling, compliance and risk management systems. These are implemented in corporate processes throughout the Group and are continuously further developed on an individual basis.

### Portfolio risks

Misjudgements of the future market development or business development of the individual segments and segment companies may lead to portfolio risks. We counter these potential risks with comprehensive internal and external analyses of the markets in which we operate. Further risks may arise from misjudgements regarding the strategic positioning of our segments and segment companies. We counter these risks through regular strategy discussions with our segment managers and the managing directors of our segment companies and carry out intensive market and competition monitoring at all management levels. We subject all strategic investments in new product or market areas to a critical analysis with regard to the expected revenue and earnings potential that could arise from the realisation of the investments. The measures described mesh together, meaning that we always have a comprehensive overview of the aggregate portfolio risks arising from the risk situation of the individual segments. In light of the coronavirus pandemic, we expect the economic environment to become more volatile than before and remain challenging for an as yet incalculable period of time, particularly for our cyclical or automotive-related operations.

Portfolio risks can also arise when growing our existing segments through acquisitions. When acquiring companies, it is possible that hidden risks or misjudgements of various aspects may adversely affect a newly acquired segment company's economic success. To minimise this possibility, we carry out a comprehensive review of the legal and economic circumstances and market environment of possible acquisition candidates. In addition, our contracts always include the greatest possible guarantees and indemnities when a company is acquired. However, we cannot completely rule out residual risk.

### Environmental risks

KAP AG's environmental management includes a number of relevant regulations to minimise environmental risks. Certification in accordance with ISO 14001 has been obtained at some production sites.

The operating processes of the KAP Group's subsidiaries in particular are associated with risks that could lead to an environmental impact. In addition, there is a risk that important customers will not continue the business relationship if the Group cannot prove compliance with environmental legislation and the continuous improvement of measures to protect the environment. Corresponding organisational units at the respective sites ensure compliance with the applicable laws and regulations and continuously identify further technical possibilities for limiting environmental risks. One action area, for example, is improving the energy efficiency of production facilities. Energy certification in accordance with ISO 50001 has been obtained at some sites. Nevertheless, it cannot be fully ruled out that the Group's operations will lead to environmental damage or modernisation projects will be associated with higher costs than originally planned.

## Company-specific risks

### Sales and marketing

Risks from sales and marketing can arise in particular from dependence on the development of individual regions and major customers. We are gradually reducing regional dependence through the strategic expansion of our segment companies' international business. In the year under review, we already generated 64.1% of our revenue abroad, meaning that our dependence on the German market has fallen appreciably in recent years. We are minimising our dependence on individual large customers by intensifying our sales and development activities, which enable us to open up new product groups, new fields of application, new markets and new customers. As of 31 December 2021, we did not generate more than 10% of our consolidated revenue with any product or service group, and we generated more than 10% with only one customer. The effects of the pandemic and supply chain bottlenecks during the year led to a decrease in revenues for some companies. This resulted from the fact that, as a supplier in the automotive sector, we also typically have framework agreements with variable quantity calls, meaning that uncertainties in revenue planning are unavoidable. We handle these uncertainties by means of suitably flexible production planning.

### Materials management

Depending on the current economic environment and potential developments in individual commodity markets, the purchase prices for raw materials and supplies, and, in some cases, their sufficient availability, may fluctuate sharply. The effects of the coronavirus pandemic led to supply bottlenecks and associated price rises for some raw materials in the reporting year. With regard to the respective market situation, we try to pass on the costs arising from increased purchase prices to our customers. In addition, as far as possible, we pass on materials management risks to our customers through different contract lengths and appropriate contract clauses. As the global economy improves, bottlenecks continue to be expected in global supply chains.

We require our suppliers to comply with clearly defined quality and manufacturing standards. To this end, our subsidiaries conduct strict quality controls on all incoming raw materials, enabling us to react to breaches of our agreed quality and manufacturing standards in good time before the start of production. In the event of objections, we immediately demand rectification or, if fundamental defects or delivery problems have occurred, immediately switch to other suppliers in our existing network. We are reliant on single-source suppliers in a small number of cases. We attempt to counter supply risks here through a higher level of inventory management.

The war that broke out between Russia and Ukraine at the end of February 2022 could directly affect the precision components segment's production activities in Belarus. The war may lead directly, but also indirectly, to supply and production disruptions for the KAP Group. There is a risk of higher costs, particularly for goods such as energy and raw materials; of considerable raw material bottlenecks; of disruption in supply chains for goods at customers and suppliers; of disruption to production (in Belarus) and adverse effects due to sanctions restrictions or concerning international payment transactions. This may have a negative impact on the financial position, cash flows and financial performance. The direct and indirect effects are heavily dependent on the further development of the war and thus highly uncertain. The dynamic and uncertain development of the overall situation means that neither the actual scale nor the duration of the adverse effects can currently be reliably determined. The actual effects depend largely on the future course of the Ukraine war and are continuously monitored by the Management Board, which has proactively developed contingency plans for the scenarios as far as possible.

In the surface technology segment, there is increased fire risk due to production processes with flammable chemicals. In cooperation with our insurers, we therefore regularly review and optimise our fire-safety policies and systems.

### Personnel

Personnel risks may arise in recruitment and retention and in the development of specialists and managers. We are increasingly in competition with other medium-sized and international companies for highly qualified specialists and managers. In addition, demographic change is leading to a reduction in the number of workers available. We counter this risk with a comprehensive package of measures to motivate, develop and promote our employees in the Group and in our segment companies. For example, we use a cross-site talent development programme for internal management training. In addition, we cooperate with schools, vocational academies and universities and offer a wide range of traineeships and university places as part of a dual work-study programme to cover the need for suitable specialists and managers. Building on our subsidiaries' training programmes, we offer personal incentives such as the financing of apprenticeships to become a master craftsman or technician. Another important factor in limiting personnel risks is the establishment and development of a modern and respectful corporate culture within the Group and its individual segment companies. We can primarily counter short- or medium-term economic fluctuations and fluctuations in demand with options such as the closure of flexitime accounts, reduced working hours, letting fixed-term contracts expire or, in extreme cases, with job cuts.

### IT/Organisation

The security of our IT systems is very important to us. Opportunities for misuse particularly arise from increasing interconnectedness. This can lead to failure of central IT systems, loss of integrity of confidential data, manipulation of IT systems or damage as a result of virus attacks. To minimise this risk, we regularly invest in our IT systems and use virus scanners and firewall systems. We have also implemented targeted access controls. Moreover, our employees are made aware of and trained on cyber risks. The risk of cyber crime has recently risen considerably. Hacker attacks are becoming increasingly frequent and sophisticated. IT security is therefore one of the key topics where the Group makes considerable efforts to improve protection against possible attacks.

## Financial risks

### Liquidity and credit risk

In our operating business and in certain financing activities, we are exposed to the risk that the counterparty will not fulfil its contractual obligations. To minimise the risk of default from financing activities, we conclude significant financial transactions with credit risk only with banks of good credit standing. In addition, we use a fixed group of five banks (as of 31 December 2021) for financing and minimise possible losses that could arise from a default through this broad diversification. The operational risk of default consists in particular in the failure of our segment companies' customers to pay existing trade receivables. We counter this risk through strict and effective accounts receivable management that is organised on a decentralised basis. In addition, where necessary, we implement further risk-reducing measures, such as taking out credit insurance.

As part of our comprehensive liquidity management, we identify possible risks from fluctuations in cash flows at an early stage. The basis of our liquidity management is a liquidity reserve, which we maintain in the form of bank balances and agreed lines of credit. As of 31 December 2021, the KAP Group had cash and cash equivalents of €17.4 million and lines of credit totalling €134.0 million, of which we have drawn €47.2 million. With the exception of our locations in China, India and Belarus, our subsidiaries are integrated into a cash pooling system.

Borrowing is carried out centrally by KAP AG. This is based on careful and forward-looking planning of the necessary financial requirements, which are deduced from the operating business and the investments to be made. The optimisation of working capital represents a key internal source of financing. We actively manage the working capital and continuously monitor the relevant influences accordingly. For external sources of financing, we ensure that our financing partners have first-class ratings. We use local financial institutions or subsidiaries or affiliates of financial institutions with which we already work together in Germany for hedging the transactions at our sites in China and India. We reduce ongoing currency risks by borrowing in the relevant national currency. Various covenants have been agreed for some of the existing financial liabilities. Compliance with these covenants is continuously monitored centrally. Any breach of the agreements made could lead to termination of financing by the banks. It is, however, routinely the case that such a breach is solved through negotiation with the banks. In the 2021 financial year, the criteria of the covenants were met.

#### Interest rate risk

Our financing consists overall of a balanced mix of short- and long-term financing instruments. In the long-term area we use redemption loans and in the short-term area we use traditional overdraft facilities, which are mainly tied into the syndicated financing. Euribor is largely used as the base rate, although there is a floor in the event of negative Euribor. Changes in the market interest rate thus lead to higher interest rates to be paid and therefore mean a corresponding interest rate risk. This risk is actively managed by our Treasury department. We refrained from hedging through the use of derivative instruments in the reporting year.

#### Currency and inflation risk

Our segment companies' international business activities mean we are exposed to risks from fluctuations in exchange rates. In the 2021 financial year, we conducted a significant proportion of our business with customers in the US dollar zone, accounting for a 9.7% share of the KAP Group's revenue. We also conducted 9.2% of our business in the Asia region in Indian rupees and Chinese yuan. We minimise the currency risk of these currencies against the euro by implementing US dollar cash pooling and through natural hedging. As in previous years, management and reduction through derivatives or other currency hedging transactions was therefore unnecessary in the 2021 financial year.

### Compliance risks

The focus of the KAP Group's compliance management system is particularly on the areas of anti-corruption and the prevention of bribery. Competition law, sanction and export control, data protection and IT compliance are other relevant topics for the compliance management system. As an important component of our compliance management system, which we have introduced across the Group, we have established a dedicated code of conduct for our employees. In addition to the code of conduct, various policies also play a major role in day-to-day business. These include specific codes of conduct for the avoidance and disclosure of conflicts of interest, for offering and accepting benefits, gifts and invitations, as well as for the arrangement of political and charitable donations or sponsorship. This way, we ensure compliance with laws and regulations. We continuously check the compliance management system for efficiency and constantly develop it further. We take into account legal changes or further-reaching regulatory changes and identified weaknesses. We raise our employees' awareness of legally compliant behaviour through training sessions and other training measures. These measures also actively contribute to avoiding the occurrence of potential reputational risks as far as possible. In 2020, a comprehensive compliance risk analysis was performed across the Group with the support of an international law firm and a plan of action was drawn up. We will continuously actively develop the KAP Group's compliance management system and pre-emptively examine potential risk areas through regular audits in the future as well. In 2022, we plan to implement additional relevant measures in the Group companies in this regard.

### Legal risks

The possible risks from legal disputes or proceedings particularly include risks in the areas of warranty and product liability, competition law, patent law and contract law. These risks may have a negative impact on our operating business and on the reputation of our Group, and may result in high costs. We reduce risks that could arise from warranty and product liability claims through efficient contract and quality management and reflect the risk in our balance sheet by recognising provisions. As of 31 December 2021, we recognised provisions totalling €9.4 million for this purpose. There were no ongoing or pending legal disputes in the KAP Group that could have a significant impact on its financial position, cash flows or financial performance as of the reporting date.

### Trademark protection

We protect our intellectual property and thus the investments in our new products and processes as far as possible through utility model applications or patent applications. The need to apply for trademark protection measures is eliminated for the joint development of products or applications with our customers, or in our role as a Tier 2 supplier.

### Overarching risks

As the coronavirus pandemic and/or the Russia-Ukraine war progresses, macroeconomic risks may arise that might lead to renewed declines in global economic growth. These risks may have a negative impact on the KAP Group's revenue and earnings development and may also lead to considerable adverse effects on production and the procurement market. To this end, the Management Board has proactively developed contingency plans for scenarios as far as possible and is continuously monitoring the further course of the war and the pandemic.

## OPPORTUNITY MANAGEMENT

Our business success is significantly influenced by the early identification of opportunities and the development of targeted measures for taking advantage of these opportunities. In a dynamic market environment, our segment strategy offers the KAP Group numerous opportunities to successfully develop the Group. Opportunities are defined as events and possible developments that lead to additional potential and positive deviations from a previously defined target and can therefore have a positive impact on the financial situation, financial performance or reputation of the Group.

To identify opportunities at an early stage, we use various market observation and analysis tools. These particularly include market studies of areas in which we already operate with our segment companies or that could be attractive for us due to the existing competition structures and growth prospects. The Management Board, segment managers and the individual managing directors of our segment companies work closely together in the context of our opportunity management. As part of annual business planning and target agreements, the Management Board puts the opportunities in concrete terms and coordinates them with the managers responsible. We want to generate added value for our stakeholders with a balanced relationship between opportunities and risks. Opportunities arising at the operating level are managed on a decentralised basis by the segment managers and the managing directors of our segment companies. This way, we can act flexibly and identify, assess and, where applicable, systematically exploit opportunities at an early stage.

Strategic opportunities for the KAP Group particularly lie in the systematic implementation of our segment strategy and our newly developed Accelerate programme as well as resulting from targeted M&A activities. The programme of measures bundles and coordinates the ongoing and future improvement initiatives, taking account of the still valid segment strategy. Tapping new regional markets opens up new opportunities to our segments. Our innovation and the further acceleration of product developments offer the opportunity to place our products in additional application environments. New opportunities have also arisen since the coronavirus pandemic. The development of new products and new markets may lead to better results for some companies in the Group that take advantage of these new opportunities. The strategic focus is particularly on future-oriented fields such as environmental protection, energy efficiency or e-mobility, which are relevant for all important industrial sectors. Our segment strategy additionally offers the opportunity to realise significant efficiency and earnings potential by optimising capacity utilisation at individual sites, pooling production capacities, optimising our product portfolio and intensifying the exchange of knowledge in our segments. Another important cornerstone of our segment strategy is increased investment in the research and development of innovative products, product groups and processes. This will create additional growth opportunities. We want to achieve the further development of our segments both through suitable internal measures and through targeted expansion through M&A activities. Likewise, opportunities may also arise as a result of unidentified or unexpected potential following an acquisition of a company. Our comfortable financing and liquidity situation means we have the ability to act in the M&A market at any time and take advantage of relevant opportunities to strengthen our Group externally.

## OVERALL STATEMENT OF THE MANAGEMENT BOARD ON THE OPPORTUNITY AND RISK SITUATION

The assessment of the overall risk situation is the result of a consolidated assessment of all material opportunities, individual risks and superordinate risk categories. From the Management Board's perspective, at the time of publication of this report, no individual or aggregate risks have been identified that could endanger the continuation of the KAP Group as a going concern.

Depending on the future course of the coronavirus pandemic, macroeconomic risks may arise, which, contrary to the currently positive economic forecasts, could lead to stagnation or a further significant decrease in global economic growth. Resulting risks for the KAP Group may adversely affect the development of revenue, earnings and, in particular, liquidity and may lead, for instance, to a considerable negative impact on production and the procurement market. If the sales situation in all markets worsens again as a result of the impact of the pandemic, further consequences for revenue and earnings and upstream and downstream processes could emerge; neither the length nor impact of which can be predicted at the current time. KAP AG continues to monitor the situation very carefully in order to take mitigating measures if necessary.

The war that broke out between Russia and Ukraine at the end of February 2022 could directly affect the precision components segment's production and delivery capabilities in Belarus. The war may directly and indirectly lead to supply and production disruptions and loss of revenue for the KAP Group. There is a risk of higher costs, particularly for energy and raw materials; of considerable raw material bottlenecks; of supply chain disruptions at customers and suppliers; of loss of assets due to trade sanctions and destruction (in Belarus) and adverse effects due to sanctions restrictions or concerning international payment transactions. This may have a negative impact on the financial position, cash flows and financial performance. The direct and indirect effects are heavily dependent on the further development of the war and thus highly uncertain. The dynamic and uncertain development of the overall situation means that neither the actual scale nor the duration of the adverse effects can currently be reliably determined. The actual effects will depend largely on the future course of the Ukraine war and related sanctions: To this end, the Management Board has proactively developed contingency plans for scenarios as far as possible and is continuously monitoring the further course of the war and will review the foreseeable changes in strategic framework conditions for all segments.

We are convinced that we will be able to systematically exploit the opportunities arising from our business activities in the future and continue to successfully overcome the challenges arising from the risks described.

# PRESENTATION OF THE FINANCIAL POSITION, CASH FLOWS AND FINANCIAL PERFORMANCE OF THE KAP GROUP

## FINANCIAL POSITION

**Balance sheet structure**

| in € millions | 2021 | 2020 | Change (%) |
|---|---|---|---|
| **Fixed assets** | **171.1** | **176.6** | **–3.1** |
| Intangible assets and property, plant and equipment | 0.1 | 0.2 | –18.2 |
| Financial assets | 171.1 | 176.3 | –3.1 |
| **Current assets** | **130.2** | **86.7** | **50.3** |
| Receivables from affiliated companies | 118.9 | 78.2 | 52.0 |
| Other assets and prepaid expenses | 1.1 | 0.4 | > 100.0 |
| Cash and cash equivalents | 10.2 | 8.1 | 26.2 |
| | | | |
| **Assets** | **301.3** | **263.2** | **14.5** |
| **Equity** | **177.7** | **131.7** | **35.0** |
| **Provisions** | **7.9** | **3.0** | **> 100.0** |
| **Liabilities** | **115.7** | **128.5** | **–10.0** |
| Liabilities to banks | 46.9 | 55.3 | –15.2 |
| Liabilities to affiliated companies | 68.5 | 72.4 | –5.4 |
| Trade and other payables | 0.3 | 0.9 | –64.9 |
| **Liabilities and equity** | **301.3** | **263.2** | **14.5** |
| **Equity ratio** | **59.0%** | **50.0%** | **17.9** |
| **Return on equity** | **33.5%** | **–0.7%** | **>100.0** |

Total assets increased by 14.5% to €301.3 million in the reporting year (previous year: €263.2 million).

The change in total assets largely results from the increase in receivables from affiliated companies (increased by 52.0% to €118.9 million), while on the liabilities and equity side there was a 35.0% increase in equity to €177.7 million.

On the assets side, fixed assets decreased slightly by 3.1% to €171.1 million. By contrast, current assets increased significantly by 50.3% to €130.2 million as a result of the rise in receivables from affiliated companies.

The increase in equity results from the sharp rise in retained earnings to €61.1 million (previous year: €15.1 million). The equity ratio increased significantly from 50.0% to 59.0%. Return on equity also improved from –0.7% to +33.5%. This was largely caused by very high income from profit and loss transfer agreements of the operating subsidiaries in Germany.

The significant increase in equity is matched on the liabilities side by lower liabilities to banks. These fell by 15.2% to €46.9 million. The interest rates for the liabilities to banks were within the usual ranges.

KAP AG's financial position is heavily influenced by receivables from and liabilities to affiliated companies. This results from its role as a central financing holding company within the KAP Group.

## CASH FLOWS

**Development of net debt**

| in € millions | 2021 | 2020 | Change (%) |
|---|---|---|---|
| Non-current financial liabilities | 6.8 | 47.3 | –85.6 |
| + Current financial liabilities | 40.1 | 8.0 | > 100.0 |
| Financial liabilities | 46.9 | 55.3 | –15.2 |
| – Cash and cash equivalents | 10.2 | 8.1 | 26.2 |
| Net debt | 36.6 | 47.2 | –22.3 |

The aim of financial management at KAP AG is to ensure liquidity for every company in the Group at the lowest possible cost at all times. In order to optimally manage liquidity flows, as many companies as possible are integrated in the central cash pooling system, which is not, however, possible for every foreign company. To optimise its financing in the long term, KAP AG concluded a syndicated loan agreement with a credit volume originally totalling €113.0 million in the 2017 financial year and concluded an addendum to it in 2018. The agreement has a term of five years and gives KAP AG sufficient funds and flexibility to be able to ensure liquidity in the KAP Group at all times. The interest rates depend on the net debt to EBITDA ratio and are between 1.5% and 2.7% plus Euribor unless Euribor is negative.

The Company's financing situation was further strengthened in the reporting year. Cash at banks increased by 26.2% to €10.2 million, whereas bank liabilities fell by 15.2% to €46.9 million. Funds are largely provided to the ongoing business of the subsidiaries within the framework of Group financing.

There were no incidents that had a sustainable impact on the Company's financing situation. Our banks' lines of credit are sufficient. Of the lines of credit, €74.8 million had not been drawn down as of the reporting date (previous year: €74.1 million).

# FINANCIAL PERFORMANCE

**Selected key indicators on financial performance**

| in € millions | 2021 | 2020 | Change (%) |
|---|---|---|---|
| Revenue | 1.7 | 2.2 | –20.7 |
| EBITDA | –6.4 | –5.6 | 14.6 |
| Operating result (EBIT) | –6.5 | –5.7 | 13.4 |
| Financial result | 72.8 | 4.9 | > 100.0 |
| Earnings before taxes (EBT) | 66.3 | –0.9 | > 100.0 |
| Annual result after taxes | 59.5 | –0.9 | > 100.0 |

The operating result fell from €–5.7 million to €–6.5 million. This is largely due to decreased revenue as a result of lower intragroup allocations. As in previous years, the operating result is negative, as KAP AG itself does not have any operating business and cannot allocate all costs incurred.

The financial result increased significantly from €4.9 million to €72.8 million. It includes income from profit and loss transfer agreements, which increased from €7.0 million to €85.5 million. The sharp increase is largely due to one-off effects at KAP AG subsidiaries. Expenses from loss absorption also increased in the reporting year, rising from €0.7 million to €11.3 million. Moreover, impairment losses on investments were recognised in an amount of €2.6 million in the reporting year. Reduced earnings expectations in the surface technologies segment ultimately led to decreased cash flow expectations. In impairment tests carried out, impairments of investments totalling €13.7 million were made in the surface technologies segment. On the other hand, earnings expectations have risen significantly in the engineered products and precision components segments, leading to higher cash flow expectations. The reasons for the impairment of the investments in these segments have ceased to exist, with the result that reversals were made. This resulted in income totalling €46.0 million, which was in turn included in income from profit transfer agreements at KAP AG.

In addition, the sale of the commercial property in Fulda and the sale of the IT segment also contributed to the high income from profit and loss transfer agreements. The annual result consequently increased significantly from €–0.9 million to €59.5 million.

As a result of developments in our subsidiaries, we expect KAP AG's financial position, cash flows and financial performance to be positive in the future as well. As a result of the aforementioned one-off effects in the reporting year, the level of future annual results will, however, be significantly below the level of the reporting year. The development of the result is also dependent on the intensity of M&A activities, advice fees resulting from this, the impact of the Russia-Ukraine war and the persistence of the Covid-19 pandemic.

# OTHER MANDATORY DISCLOSURES

## CORPORATE GOVERNANCE STATEMENT

The corporate governance statement in accordance with sections 289f and 315d of the German Commercial Code (HGB) can be found on our website at https://www.kap.de/en/investor-relations/corporate-governance/corporate-governance-statement.

## COMBINED SEPARATE NON-FINANCIAL GROUP REPORT

The separate non-financial Group report for the 2021 financial year to meet the requirements of the CSR Directive Implementation Act at Company and Group level pursuant to sections 315b and c of the German Commercial Code (HGB) in conjunction with sections 289b to e HGB is available at https://www.kap.de/en/company/vision-values/non-financial-group-statement.

## DISCLOSURES RELEVANT TO TAKEOVERS IN ACCORDANCE WITH SECTION 289A (1) AND SECTION 315A (1) OF THE GERMAN COMMERCIAL CODE (HGB) AND EXPLANATORY REPORT OF THE MANAGEMENT BOARD IN ACCORDANCE WITH SECTION 176 (1) SENTENCE 1 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

### COMPOSITION OF THE SUBSCRIBED CAPITAL

As of 31 December 2021, the Company's share capital amounted to €20,195,663.80, divided into 7,767,563 no-par value bearer shares with a calculated proportion of the share capital of €2.60 each. Each share grants the same legal rights and one vote at the Annual General Meeting. There are no different classes of shares.

### RESTRICTIONS RELATING TO VOTING RIGHTS AND THE TRANSFER OF SHARES

The exercise of voting rights and the transfer of shares are governed by the statutory provisions. In accordance with section 136 (1) of the German Stock Corporation Act (AktG), these relate primarily to the vote on annual approval in respect of shares held directly or indirectly by members of the Management Board or Supervisory Board, as well as the – at least temporary – non-existence of voting rights in the event of violations of the notification obligations pursuant to section 33 (1) or (2), section 38 (1) or section 39 (1) of the German Securities Trading Act (WpHG). KAP AG's Articles of Association do not provide for any restrictions on voting rights or the transfer of shares. The Management Board is not aware of any special contractual restrictions on voting rights or the transfer of shares.

## SHAREHOLDINGS EXCEEDING 10% OF THE VOTING RIGHTS

As of the end of the 2021 financial year, based on the voting rights notifications pursuant to sections 33 and 34 of the German Securities Trading Act (WpHG) that were received by the Company as of 31 December 2021, the following direct and indirect shareholdings in KAP AG exceeding the threshold of 10% of the voting rights existed: Project Diamant Bidco GmbH (previously Project Diamant Bidco AG) (direct), Project Diamant GmbH & Co. KG (indirect), Project Diamant Administration GmbH (indirect), CSP Diamant LuxCo II S.a.r.l. (indirect), CSP Diamant LuxCo I S.a.r.l. (indirect), Diamant Acquisition, L.P. (indirect), CSP IV (Cayman 3) (indirect), L.P, CSP IV (Cayman 3) General Partner, L.P. (indirect), CSP IV (Cayman 3) GP, Ltd. (indirect), TC Group Cayman Sub L.P. (indirect), TC Group Cayman, L.P. (indirect), Carlyle Holdings III L.P. (indirect), Carlyle Holdings III GP Sub L.L.C. (indirect), Carlyle Holdings III GP L.P. (indirect), Carlyle Holdings III GP Management L.L.C. (indirect), The Carlyle Group Inc. (indirect), Carlyle Group Management L.L.C. (indirect), Daniel Anthony D'Aniello (indirect), William Elias Conway Jr (indirect), David Mark Rubenstein (indirect) and FM Verwaltungsgesellschaft mbH, Stadtallendorf, Germany (direct). Further information can be found in section 46 of the notes (related party transactions) and on page 150. The Management Board is not aware of any further direct or indirect shareholdings in the Company that exceed 10% of the voting rights.

## SHARES WITH SPECIAL RIGHTS CONFERRING POWERS OF CONTROL

No shares with special rights conferring powers of control were issued.

## TYPE OF CONTROL OF VOTING RIGHTS IN THE EVENT THAT EMPLOYEES HAVE SHAREHOLDINGS AND DO NOT EXERCISE THEIR CONTROL RIGHTS DIRECTLY

Employees exercise their voting rights and control rights arising from any shareholdings they have in KAP AG in accordance with legal requirements and the Articles of Association.

## APPOINTMENT AND REMOVAL FROM OFFICE OF MEMBERS OF THE MANAGEMENT BOARD AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The members of KAP AG's Management Board are appointed and removed from office exclusively in accordance with the legal requirements pursuant to sections 84 and 85 of the German Stock Corporation Act (AktG). Pursuant to Article 5 of the Articles of Association, the Management Board of the Company consists of two or more members. The number is determined by the Supervisory Board.

Pursuant to section 119 (1) 6 and section 179 (1) sentence 1 AktG, the Articles of Association may only be amended by resolution of the General Meeting. Pursuant to Article 17 of the Articles of Association in conjunction with section 179 (2) and section 133 (1) AktG, the resolution of the shareholders at the General Meeting on amendments to the Articles of Association is generally passed by a simple majority of votes cast, unless other mandatory legal requirements exist. Amendments to the Articles of Association that only affect the wording may be made by the Supervisory Board in accordance with Article 12 of the Articles of Association.

## POWERS OF THE MANAGEMENT BOARD TO ISSUE OR REPURCHASE OWN SHARES

Pursuant to Article 4 (4) of the Articles of Association, KAP AG's Management Board is authorised, with the consent of the Supervisory Board, to increase the Company's share capital until 7 July 2022 by issuing up to 181,772 new no-par value bearer shares, each with a proportionate interest in the share capital of €2.60, in return for contributions in cash and/or in kind (Authorised Capital 2017). Shareholders are generally to be granted subscription rights. However, with the approval of the Supervisory Board, the Management Board is authorised to exclude this subscription right in certain cases. Further details can be found in Article 4 (4) of KAP AG's Articles of Association, which can be accessed at any time on the Company's website and in the electronic register of companies.

The Annual General Meeting on 30 September 2021 authorised the Company to acquire, until 29 September 2026, own shares with an amount of share capital attributable to them totalling up to €2,019,566.38, which is 10% of the share capital. The details are set out in the authorisation resolution adopted by the Annual General Meeting on 30 September 2021 (agenda item 11). As of 31 December 2021, KAP AG had not made use of this resolution.

## MATERIAL AGREEMENTS THAT ARE CONDITIONAL ON A CHANGE OF CONTROL IN THE EVENT OF A TAKEOVER OFFER

There are no material agreements of the Company that are conditional on a change of control in the event of a takeover offer.

## COMPENSATION AGREEMENTS IN THE EVENT OF A TAKEOVER OFFER

There are no compensation agreements between the Company and the members of the Management Board or individual employees that take effect in the event of a takeover offer.

# Consolidated Financial Statements

# CONSOLIDATED STATEMENT OF INCOME

## FROM 1 JANUARY TO 31 DECEMBER 2021

| in € thousands | Note | 2021 | 2020[1] |
|---|---|---|---|
| **Revenue** | (27) | **345,617** | **322,662** |
| Change in inventories and other own work capitalised | | 6,830 | –13,648 |
| **Total performance** | | **352,447** | **309,014** |
| Other operating income | (28) | 47,081 | 29,072 |
| Cost of materials | (29) | –193,252 | –158,869 |
| Personnel expenses | (30) | –87,031 | –90,865 |
| Amortisation and impairment of intangible assets and depreciation and impairment of property, plant and equipment and investment property | (31) | –25,151 | –29,960 |
| Other operating expenses | (32) | –62,668 | –55,161 |
| **Operating result** | | **31,426** | **3,231** |
| Interest result | (33) | –2,530 | –3,538 |
| Other financial result | (34) | –604 | –3,922 |
| **Financial result** | | **–3,134** | **–7,460** |
| **Earnings from continuing operations before income taxes** | | **28,292** | **–4,229** |
| Income taxes | (35) | –6,640 | –119 |
| **Earnings from continuing operations** | | **21,652** | **–4,348** |
| Earnings from discontinued operations after taxes | (17) | 18,205 | 1,664 |
| **Consolidated annual result after taxes** | | **39,857** | **–2,684** |
| Result share of non-controlling interests | (36) | –14 | 277 |
| **Consolidated annual result of KAP AG shareholders** | | **39,843** | **–2,961** |
| | | | |
| **Undiluted earnings per share (in EUR)** | (37) | | |
| Earnings from continuing operations | | 2.79 | –0.56 |
| Gains/losses from discontinued operations | | 2.35 | 0.21 |
| | | **5.14** | **–0.35** |

[1] The consolidated statement of income of the previous year is altered due to adjustments in the it/services segment.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS

## FOR THE PERIOD ENDED 31 DECEMBER 2021

| in € thousands | 2021 | 2020 |
|---|---|---|
| **Consolidated result after taxes** | **39,857** | **–2,684** |
| Unrealised gains (+) and losses (–) from currency translation | 3,853 | –4,080 |
| **Items that may be reclassified subsequently to profit or loss** | **3,853** | **–4,080** |
| Actuarial gains from defined-benefit pension plans | 635 | 130 |
| Deferred taxes on actuarial gains/losses from defined-benefit pension plans | –191 | –39 |
| **Items which will not be reclassified in the income statement in the future** | **444** | **91** |
| **Other result after taxes** | **4,297** | **–3,989** |
| of which other comprehensive income after taxes attributable to non-controlling interests | – | 2 |
| thereof result after taxes attributable to shareholders of KAP AG | 4,297 | –3,991 |
| **Total comprehensive income** | **44,154** | **–6,672** |
| of which total comprehensive income attributable to non-controlling interests | 14 | 279 |
| thereof attributable to shareholders of KAP AG | 44,140 | –6,951 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AT 31 DECEMBER 2021

| in € thousands | Note | 31/12/2021 | 31/12/2020 |
|---|---|---|---|
| **ASSETS** | | | |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | (7) | 35,867 | 27,840 |
| Property, plant and equipment | (8) | 172,343 | 149,893 |
| Investment properties | (9) | 1,888 | 1,961 |
| Other financial assets | (10) | 196 | 231 |
| Deferred tax assets | (11) | 4,365 | 5,311 |
| | | **214,659** | **185,235** |
| **Current assets** | | | |
| Inventories | (12) | 59,597 | 42,822 |
| Trade receivables | (13) | 38,435 | 43,347 |
| Income tax receivables | (14) | 1,219 | 1,051 |
| Other receivables and assets | (15) | 10,256 | 9,768 |
| Cash and cash equivalents | (16) | 17,421 | 15,694 |
| | | **126,928** | **112,682** |
| **Non-current assets held for sale and discontinued operations** | (17) | **524** | **15,153** |
| | | **342,111** | **313,070** |

| in € thousands | Note | 31/12/2021 | 31/12/2020 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity and reserves** | (18) | | |
| Subscribed capital | | 20,196 | 20,177 |
| Capital reserve | | 86,921 | 86,840 |
| Reserves | | –16,672 | –20,431 |
| Consolidated balance sheet result | | 91,696 | 65,446 |
| **Equity attributable to shareholders of KAP AG** | | **182,141** | **152,032** |
| Non-controlling interests | (18) | 546 | 2,296 |
| | | **182,687** | **154,328** |
| **Non-current liabilities** | | | |
| Provisions for pensions and similar obligations | (20) | 16,677 | 18,280 |
| Non-current financial liabilities | (21) | 26,676 | 59,044 |
| Deferred tax liabilities | (11) | 6,528 | 6,643 |
| Other non-current liabilities | (22) | – | – |
| | | **49,881** | **83,967** |
| **Current liabilities** | | | |
| Other provisions | (23) | 22,917 | 27,100 |
| Current financial liabilities | (21) | 43,097 | 11,504 |
| Trade payables | (24) | 24,547 | 18,858 |
| Income tax liabilities | (25) | 7,643 | 4,961 |
| Other liabilities | (26) | 11,339 | 7,456 |
| | | **109,543** | **69,879** |
| **Liabilities in connection with discontinued operations** | (17) | **–** | **4,896** |
| | | **342,111** | **313,070** |

# STATEMENT OF CHANGES IN EQUITY

## FOR THE PERIOD ENDED 31 DECEMBER 2021

| in € thousands | Subscribed capital | Capital reserve | Revenue reserves: Currency differences | Revenue reserves: Actuarial gains/losses |
|---|---|---|---|---|
| **01/01/2020** | **20,177** | **86,840** | **–19,740** | **–7,073** |
| Consolidated annual result | – | – | – | – |
| Other comprehensive income before taxes | – | – | –4,081 | 130 |
| Deferred taxes on other comprehensive income | – | – | – | –39 |
| **Total comprehensive income** | **–** | **–** | **–4,081** | **91** |
| Capital increase | – | – | – | – |
| Capital decrease | – | – | – | – |
| Dividends paid to shareholders | – | – | – | – |
| Change in consolidation group | – | – | – | – |
| Other changes | – | – | – | – |
| **31/12/2020** | **20,177** | **86,840** | **–23,821** | **–6,982** |
| | | | | |
| **01/01/2021** | **20,177** | **86,840** | **–23,821** | **–6,982** |
| Consolidated annual result | – | – | – | – |
| Other comprehensive income before taxes | – | – | 3,853 | 635 |
| Deferred taxes on other comprehensive income | – | – | – | –191 |
| **Total comprehensive income** | **–** | **–** | **3,853** | **444** |
| Capital increase | 19 | 81 | – | – |
| Capital decrease | – | – | – | – |
| Dividends paid to shareholders | – | – | – | – |
| Change in consolidation group | – | – | – | 252 |
| Withdrawals | – | – | – | – |
| Other changes | – | – | – | 171 |
| **31/12/2021** | **20,196** | **86,921** | **–19,969** | **–6,115** |

As the figures are presented in € thousands, the numbers may not add up due to rounding.
See note 18 of the notes to the consolidated financial statements for additional information on equity.

| Other | Total | Net result | Equity attributable to KAP shareholders | Non-controlling interests | Total equity |
|---|---|---|---|---|---|
| **10,372** | **–16,441** | **68,413** | **158,989** | **2,016** | **161,005** |
| – | – | –2,961 | –2,961 | 277 | –2,684 |
| – | –3,951 | – | –3,951 | 2 | –3,949 |
| – | –39 | – | –39 | – | –39 |
| **–** | **–3,990** | **–2,961** | **–6,951** | **279** | **–6,672** |
| – | – | – | – | – | – |
| – | – | – | – | – | – |
| – | – | – | – | – | – |
| – | – | – | – | – | – |
| – | – | –6 | –6 | – | –6 |
| **10,372** | **–20,431** | **65,446** | **152,032** | **2,296** | **154,328** |
| | | | | | |
| **10,372** | **–20,431** | **65,446** | **152,032** | **2,296** | **154,328** |
| – | – | 39,843 | 39,843 | 14 | 39,857 |
| – | 4,488 | – | 4,488 | – | 4,488 |
| – | –191 | – | –191 | – | –191 |
| **–** | **4,297** | **39,843** | **44,140** | **14** | **44,154** |
| – | – | – | 100 | – | 100 |
| – | – | – | – | – | – |
| – | – | –13,593 | –13,593 | – | –13,593 |
| –252 | – | – | – | – | – |
| –538 | –538 | – | –538 | –1,764 | –2,302 |
| –171 | – | – | – | – | – |
| **9,411** | **–16,672** | **91,696** | **182,141** | **546** | **182,687** |

# CONSOLIDATED STATEMENT OF CASH FLOWS[1]

| in € thousands | 31/12/2021 | 31/12/2020 |
|---|---|---|
| **Consolidated annual result after taxes** | **39,857** | **–2,684** |
| less earnings from discontinued operations after taxes | –18,205 | – |
| **Earnings from continuing operations (previous year: Consolidated annual result after taxes)** | **21,652** | **–** |
| Interest result | 2,530 | 3,548 |
| Income taxes | 6,640 | 353 |
| **Earnings from continuing operations before interest and income taxes (previous year: Earnings before interest and income taxes)** | **30,822** | **1,217** |
| Depreciation, amortisation and impairment of non-current assets | 25,151 | 30,723 |
| Change in provisions | –5,936 | 4,655 |
| Other non-cash expenses and income | –5,298 | –1,982 |
| Gains/losses from the disposal of non-current assets and non-current assets held for sale | –23,374 | –251 |
| **Cash flow from operating activities before change in net working capital** | **21,365** | **34,362** |
| Changes in inventories, receivables and other assets not attributable to investing and financing activities | –10,919 | 31,239 |
| Change in payables and other liabilities not attributable to investing and financing activities | 5,154 | –5,127 |
| **Cash flow from operating activities before interest and income taxes** | **15,600** | **60,474** |
| Interest paid and received | –2,353 | –2,945 |
| Income taxes paid and received | –4,941 | –2,318 |
| **Cash flow from operating activities** | **8,306** | **55,211** |
| Proceeds from disposals of property, plant and equipment (including investment property) and non-current assets held for sale | 37,509 | 270 |
| Investments in property, plant and equipment (including investment property) | –30,066 | –21,647 |
| Investments in intangible assets | –1,190 | –809 |
| Proceeds from the disposal of financial assets | – | 1,131 |
| Cash inflow from the disposal of consolidated companies | 19,271 | – |
| Cash outflow from the addition of consolidated companies | –7,182 | – |
| Cash inflow from repayments of financial receivables | 35 | 65 |
| **Cash flows from investing activities** | **18,377** | **–20,990** |

[1] To improve the presentation and meaningfulness of the cash flows from continuing operations, the cash flows from discontinued operations were not included in 2021 – with the exception of the cash inflow from the sale.

| in TEUR | 31/12/2021 | 31/12/2020 |
|---|---|---|
| Proceeds from capital increase | – | 100 |
| Dividends paid to shareholders | –13,593 | – |
| Cash outflow from the acquisition of minority interests | –2,301 | – |
| Cash inflow from borrowing | 15,007 | 28,801 |
| Disbursements for the repayment of financial liabilities | –23,871 | –52,024 |
| **Cash flow from financing activities** | **–24,758** | **–23,123** |
| Net change in cash and cash equivalents | 1,926 | 11,098 |
| Change in cash and cash equivalents due to exchange-rate, consolidated-group and valuation effects | –199 | –211 |
| Cash and cash equivalents at beginning of period | 15,694 | 5,077 |
| **Cash and cash equivalents at end of period excl. discontinued operations** | **17,421** | **15,964** |
| **Cash and cash equivalents attributable to discontinued operations** | **–** | **–270** |
| **Cash and cash equivalents at end of period** | **17,421** | **15,694** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE 2021 FINANCIAL YEAR

### 1. GENERAL REMARKS

KAP AG or the KAP Group has prepared the consolidated financial statements for the period ended 31 December 2021 in accordance with the International Financial Reporting Standards (IFRS) adopted in the EU member states and the additional requirements of section 315e of the German Commercial Code (HGB). The consolidated financial statements of KAP AG take into account and have been prepared in accordance with all of the International Financial Reporting Standards (IFRS) that are mandatory as of 31 December 2021 and the associated interpretations (IFRIC). In addition to the statement of financial position, the statement of income, the statement of comprehensive income/loss, the statement of changes in shareholders' equity and the statement of cash flows are also shown. The notes also contain segment reporting.

To improve the clarity of presentation, various items of the consolidated statement of financial position and of the consolidated statement of income have been combined. These items are broken down and explained accordingly in the notes. Assets and liabilities are reported as non-current if they permanently serve business operations or have a term of more than one year.

The consolidated statement of income has been prepared using the nature of expense method.

The Group's reporting currency is the euro. All figures are given in thousands of euros unless otherwise stated. As the figures are presented in € thousands, the numbers may not add up due to rounding.

KAP AG is a listed industrial holding company that holds stakes in medium-sized companies. The Group companies operate in four (previous year: five) different segments. KAP AG's registered office is Edelzeller Strasse 44, 36043 Fulda, Germany, and the Company is entered under HRB 5859 in commercial register B at Fulda District Court.

### 2. CONSOLIDATED GROUP

In addition to KAP AG, the consolidated financial statements include all major domestic and foreign subsidiaries that are under the legal and/or actual control of KAP AG. In addition to the parent company, the consolidated group includes 28 (previous year: 31) German and 19 (previous year: 20) foreign companies.

Investments in associates are accounted for using the equity method.

Interests in subsidiaries and investments in associates whose influence on the financial position, cash flows and financial performance is of minor importance are not included in the consolidated financial statements.

Two (previous year: five) subsidiaries and one (previous year: one) investment were not included. The key figures for the companies not included in the consolidated financial statements are each less than 1% of the consolidated revenue, consolidated equity and consolidated total assets.

Overall, the consolidated group changed as follows in the year under review:

| | 31/12/2020 | Additions | Disposals | 31/12/2021 |
|---|---|---|---|---|
| Germany | 31 | 1 | 4 | 28 |
| Rest of the world | 20 | 2 | 3 | 19 |
| **Total** | **51** | **3** | **7** | **47** |

The disposals (in Germany and abroad) concern the following changes under company law:

With the notarial contract of 29 June 2021, Mehler Aktiengesellschaft, Fulda, sold all the shares in it-novum GmbH, Fulda, and it-novum Schweiz GmbH, Zurich. The sale became legally effective as of 30 June 2021.

In the previous year, the Management Board and Supervisory Board had decided to sell the it/services segment. With the notarial contract of 17 December 2020, Mehler Aktiengesellschaft, Fulda, consequently sold all the shares in MES GmbH (formerly MEHLER Engineering und Service GmbH), Fulda. The sale became legally effective as of 1 January 2021. Before the sale, Mehler Aktiengesellschaft had separated the minor business area of electricity supply to the commercial property in Fulda as a small part of the it/services segment from the divested company and incorporated it into Mehler Aktiengesellschaft, Fulda, and Mehler Grundstücksverwaltungs GmbH, Fulda. Said business exclusively serves companies within the KAP Group. The sale proceeds from the shares in MES GmbH were €0.3 million. The other companies allocated to this segment were sold in the second quarter of 2021. The data centre business that previously belonged to it-novum GmbH provides various IT services principally for other companies in the KAP Group. In January 2021, the Management Board and Supervisory Board decided not to sell this business. The business was consequently separated from it-novum GmbH, Fulda, and incorporated into the existing KAP IT Service GmbH (formerly Platin 1535. GmbH), Fulda, with effect as of 1 March 2021.

With retroactive effect as of 1 January 2021, on 12 February 2021 Mehler Aktiengesellschaft acquired the remaining 26% of the shares in NOW Contec GmbH, Convert Vliesveredlung GmbH, NOW Contec GmbH & Co. KG and Convert Vliesveredlung GmbH & Co. KG. The purchase price totalled €2.3 million. Following the transaction, the KAP Group holds 100% of the shares in these companies.

Technolen technický textil s.r.o., Hlinsko/Czech Republic, merged with MEHLER ENGINEERED PRODUCTS s.r.o., Jilemnice/Czech Republic, with effect as of 1 January 2021. Olbo & Mehler Verwaltungs-GmbH, Fulda, was merged with MEHLER ENGINEERED PRODUCTS GmbH, Fulda, with effect as of 1 January 2021 in accordance with the merger agreement of 21 July 2021 and the approval resolutions of the legal entities involved. Olbo & Mehler Tex GmbH & Co. KG, Fulda, was accrued by MEHLER ENGINEERED PRODUCTS GMBH, Fulda, with effect as of 19 January 2021. The measures are part of the restructuring in the engineered products segment.

Heiche Hungary Real Estate Kft., Sátoraljaújhely/Hungary, was merged with Heiche Hungary Surface Technologies Kft., Sátoraljaújhely/Hungary, with effect as of 31 March 2021.

The additions (in Germany and abroad) concern the following changes under company law:

AerO Holding B.V., Tilburg/Netherlands, and AerO Coated Fabrics B.V., Tilburg/Netherlands, were purchased with a purchase agreement of 15 July 2020 and acquired with economic effect as of 1 January 2021.

| in € thousands | Carrying amounts before purchase price allocation | Adjustment | Final purchase price allocation |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | – | 5,124 | 5,124 |
| Property, plant and equipment | 1,599 | – | 1,599 |
| Deferred tax assets | – | – | – |
| | **1,599** | **5,124** | **6,723** |
| **Current assets** | | | |
| Inventories | 351 | – | 351 |
| Trade receivables | 327 | – | 327 |
| Other receivables and assets | 46 | – | 46 |
| Cash and cash equivalents | 1,201 | – | 1,201 |
| | **1,925** | **–** | **1,925** |
| **Assets** | **3,524** | **5,124** | **8,648** |
| | | | |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | – | 1,281 | 1,281 |
| Financial liabilities | 487 | – | 487 |
| Pension obligations | – | – | – |
| | **487** | **1,281** | **1,768** |
| **Current liabilities** | | | |
| Other provisions | 45 | – | 45 |
| Current financial liabilities | 183 | – | 183 |
| Trade payables | 310 | – | 310 |
| Current income taxes | – | – | – |
| Other liabilities | 310 | – | 310 |
| | **848** | **–** | **848** |
| **Liabilities** | **1,335** | **1,281** | **2,616** |
| **Net assets** | **2,189** | **3,843** | **6,032** |
| Goodwill | – | – | 4,937 |
| Put option liabilities | – | – | –2,586 |
| **Purchase price of shares** | **–** | **–** | **8,383** |

Non-tax-deductible goodwill of €4,937 thousand arose from the final purchase price allocation of assets and liabilities. The goodwill was allocated to the flexible films segment. It represents non-separable assets such as employees' know-how, positive earnings expectations for the future and synergies from development, sales and marketing.

The fair value of the consideration transferred is €10,968 thousand. The purchase price was paid in full in cash.

KAP IT-Service GmbH (formerly Platin 1535. GmbH), Fulda, was included in the consolidated group as a subsidiary for the first time as of 1 January 2021. With effect as of 1 March 2021, the Company acquired the data centre business from it-novum GmbH, Fulda.

Deconsolidation proceeds from subsidiaries are disclosed under result from discontinued assets and liabilities. Discontinued operations are recognised separately under gains/losses from discontinued operations after taxes. The transfer of control determines the date of initial consolidation and deconsolidation. The effects resulting from the change in the consolidated group are, where required and if they are material, explained in the note to the relevant item in the consolidated statement of financial position or the consolidated statement of income.

The following companies made use of section 264 (3) of the German Commercial Code (HGB) on the basis of existing profit and loss transfer agreements with KAP AG:

| Name | Registered office |
|---|---|
| Mehler Aktiengesellschaft | Fulda, Germany |
| KAP Precision Components GmbH | Fulda, Germany |
| KAP Surface Holding GmbH | Heinsdorfergrund, Germany |
| Heiche Oberflächentechnik GmbH | Schwaigern, Germany |
| Heiche Logistic GmbH | Schwaigern, Germany |

These and other companies that also made use of section 264 (3) HGB and section 264b HGB are shown in the list of investments of KAP AG in accordance with section 313 (2) HGB that is presented in note 48.

KAP AG's documents that require disclosure are submitted to the Federal Gazette and subsequently published.

## 3. CONSOLIDATION PRINCIPLES

The purchase method is applied to all business combinations. The acquired assets and liabilities of fully consolidated companies are recognised at their fair value. The annual financial statements of the companies included are prepared for the period ending on KAP AG's reporting date and are based on uniform accounting and valuation methods.

Any positive difference remaining following the purchase price allocation is recognised as goodwill. All goodwill is regularly tested for impairment after allocation to a cash-generating unit.

Any remaining negative difference is recognised immediately in the income statement.

Shares in the capital and annual result of fully consolidated subsidiaries that are not attributable to the parent company are reported as non-controlling interests within equity.

Changes in the parent company's ownership interests in subsidiaries that do not result in the loss or acquisition of control are accounted for as equity transactions.

Investments in associates are accounted for using the equity method. Any resulting positive differences are recorded as goodwill in an auxiliary calculation and regularly tested for impairment. Negative differences are recognised immediately as income and increase the carrying amount of the investment.

Intragroup revenue, expenses and income and also receivables, liabilities and provisions between Group companies are also eliminated, as are results from intragroup transactions if these would impact financial performance, cash flows or financial position.

## 4. CURRENCY TRANSLATION

Foreign currency receivables and liabilities recognised in the separate financial statements are initially recognised at their purchase price. Exchange rate gains and losses arising on the reporting date as a result of changes in exchange rates are recorded through profit or loss in profit or loss for the period.

The financial statements of consolidated Group companies that are prepared in foreign currencies are translated using the modified closing rate method based on the concept of the functional currency. As the subsidiaries generally operate independently from a financial, economic and organisational point of view, the functional currency is the national currency of the registered office of the company.

Generally, all assets and liabilities are translated at the average exchange rate on the reporting date, and expenses and income are translated at the annual average exchange rate. When applying the accounting rules at times of hyperinflation, the expenses and income are translated at the reporting date rate.

Translation differences resulting from varying currency exchange rates in the statement of financial position and statement of income are recognised directly in equity.

In the case of consolidated companies that are not wholly owned by KAP AG, the differences resulting from the currency translation, if attributable to non-controlling interests, are reported separately under non-controlling interests.

Currency translation differences from the consolidation of liabilities are generally recognised through profit and loss.

The following exchange rates were used:

| | Annual average exchange rate | | Average exchange rate on reporting date | |
|---|---|---|---|---|
| | 2021 | 2020 €1 = | 31/12/2021 | 31/12/2020 €1 = |
| Belarusian rouble | 2.9967 | 2.7978 | 2.8945 | 3.2072 |
| Chinese yuan | 7.6209 | 7.8743 | 7.2172 | 8.0093 |
| Indian rupee | 87.3227 | 84.6287 | 84.1680 | 89.6896 |
| Polish zloty | 4.5672 | 4.4443 | 4.5944 | 4.5566 |
| Swedish krona | 10.1494 | 10.4849 | 10.2558 | 10.0250 |
| Swiss franc | 1.0814 | 1.0705 | 1.0333 | 1.0811 |
| South African rand | 17.4298 | 18.7857 | 18.0538 | 18.0135 |
| Czech koruna | 25.6209 | 26.4626 | 24.8610 | 26.2420 |
| Hungarian forint | 358.3376 | 351.3362 | 369.8500 | 364.3800 |
| US dollar | 1.1814 | 1.1424 | 1.1320 | 1.2275 |

## 5. ACCOUNTING AND VALUATION PRINCIPLES

The financial statements of the companies included in the consolidated financial statements have been prepared in accordance with uniform accounting and valuation principles.

**Fair value**

In the International Financial Reporting Standards, IFRS 13 (Fair Value Measurement) regulates measurement at fair value, including the necessary disclosures, largely uniformly. The fair value is the value that would be achieved by the sale of an asset or the price that would have to be paid to transfer a debt. The IFRS 13 three-level fair value hierarchy is applied. Financial assets and liabilities are allocated to hierarchy level 1 if a quoted market price for assets and liabilities in an active market is available. Allocation to hierarchy level 2 occurs if a valuation model applies or the price is derived from similar transactions. Financial assets and liabilities are recognised in hierarchy level 3 if the fair value is determined from unobservable parameters. When measuring assets and liabilities, the risk of default is also taken into account.

**Intangible assets**

Intangible assets are only recognised if it is likely that the expected future benefit will result and the cost of the asset can be reliably measured.

Purchased intangible assets are initially recognised at cost. This includes not only the purchase price but any costs directly attributable to bringing the asset to the condition necessary for it to be capable of operating.

Internally generated intangible assets are also recognised at cost. This cost comprises all costs directly attributable to the production process and an appropriate share of production-related overheads.

Research and development costs are generally treated as current expenses. Development costs are then capitalised and amortised on a straight-line basis when a newly developed product or process can be clearly defined, is technically feasible and is either intended for own use or for commercialisation. Furthermore, the capitalisation requires the costs to be covered by future inflows of cash with sufficient probability.

Following initial recognition, intangible assets are reported under the cost model at cost less amortisation and impairment losses.

The amortisation is recognised on a straight-line basis over a period of three to nine years.

**Goodwill**

Goodwill that has arisen through business combinations is initially recognised at cost and is measured in subsequent periods at cost less any accumulated impairment losses.

**Property, plant and equipment**

An item of property, plant and equipment is recognised as an asset at cost when it is probable that the associated future economic benefits will flow to the entity and that the cost of the asset can be reliably determined.

The acquisition costs include any costs directly attributable to bringing the assets to the condition necessary for them to be capable of operating in the manner intended. In addition to direct costs, the production costs also include an appropriate share of production-related overheads.

In subsequent periods, items of property, plant and equipment are reported under the cost model at cost less depreciation and accumulated impairment losses. For assets acquired after 1 January 2004, depreciation is charged exclusively on a straight-line basis. If a significant portion of the cost of an asset can be allocated to components, these are depreciated separately. The depreciation increases accordingly for assets used in multi-shift operation.

Property, plant and equipment are depreciated over the following useful lives:

| | Years |
|---|---|
| Factory and office buildings | 7 to 50 |
| Technical equipment and machinery | 4 to 25 |
| Factory and office equipment | 3 to 15 |

Depreciation is recognised as long as the asset's residual value does not exceed its carrying amount.

**Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Construction projects or other assets are defined as qualifying assets where at least twelve months are required to prepare them for an intended use or sale.

**Leasing**

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

**Lessee**

The Group recognises and measures all leases (except for short-term leases and leases for which the underlying asset is of low value) in accordance with a single model.

The leases are capitalised within property, plant and equipment as a right-of-use asset and future lease payments are recognised as a liability.

(1) Right-of-use assets

Right-of-use assets are recognised as of the commencement date of the lease, i.e. as of the date on which the underlying leased asset is available for use. Right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liabilities. The costs of the right-of-use assets comprise the lease liabilities recognised, the initial direct costs incurred and the lease payments made at or before the commencement date, less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the expected useful life of the leased asset as follows:

| | |
|---|---|
| Buildings | 2 to 18 years |
| Technical equipment and machinery | 1 to 5 years |
| Other equipment, plant and office equipment | 1 to 5 years |

If ownership of the leased asset transfers to the Group at the end of the lease term or if the exercise of a purchase option is reflected in the costs, the depreciation will be calculated on the basis of the expected useful life of the leased asset. Various real estate and equipment leases of the Group include extension and termination options. Contractual conditions of this type are used to preserve operating flexibility in relation to the assets used by the Group.

The right-of-use assets are also tested for impairment.

(2) Lease liabilities

On the commencement date, the Group recognises the lease liabilities at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or rate and amounts expected to be payable under residual value guarantees.

The lease payments further include the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and payment of penalties for terminating the lease if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers this payment occurs.

When calculating the present value of the lease payments, the Group uses its incremental borrowing rate at the commencement date because the interest rate implicit in the lease cannot be readily determined. The weighted average incremental borrowing rate was around 2.21%.

Following the commencement date, the amount of the lease liability is increased to reflect higher interest expense and reduced to reflect the lease payments made. In addition, the carrying amount of the lease liability is revalued in the event of a change to the lease, a change to the lease payments (e.g. a change in future lease payments as a result of a change in an index or a rate used to determine those payments) or in the event of a change in the assessment of an option to purchase the underlying asset.

The lease liabilities are included in financial liabilities.

(3) Short-term leases and leases of low value assets

The Group applies the exemption for short-term leases (i.e. leases whose term from the commencement date is a maximum of twelve months and which do not include a purchase option) to its short-term leases. It also applies the exemption for leases of low-value assets to leases classified as low value. Lease payments for short-term leases and for leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

**Sale and leaseback**

For sale-and-leaseback transactions, it is first assessed whether these constitute a sale within the meaning of IFRS 15 and thus constitute such a transaction . The right-of-use asset is recognised at the proportion of the original carrying amount of the asset that relates to the right of use retained. Only the amount that relates to the proportion of the right-of-use asset not leased back is realised as a gain or loss. The calculation of the lease liability corresponds to the procedure mentioned above. If the lease payments agreed are not at market rates or the fair value of the consideration is not equal to the fair value of the asset, additional value adjustments are necessary.
When calculating the selling profit and the carrying amount of the right of use retained, only the factors determining price and value and the purchase price commitments that are virtually certain are taken into account.

**Government grants**

Government grants are not recognised until there is reasonable assurance that the applicant company will comply with the conditions and the grants will be actually received. As a rule, grants are allocated as income on a systematic basis over the period in which the corresponding expenses are to be compensated.

Grants for assets are deducted from the carrying amount of the asset concerned.

**Investment properties**

Land and buildings not required for operations are classified as investment properties and initially recognised at cost. They are only recognised if it is likely that the future economic benefits associated with the asset will flow to the entity and that the cost of the asset can be reliably determined.

Investment properties are reported under the cost model at cost less depreciation and accumulated impairment losses. The depreciation is charged in the same way as for comparable items of property, plant and equipment (factory and office equipment).

**Impairment of non-current non-financial assets**
For intangible assets with a specific useful life, property, plant and equipment and investment properties, an assessment is made at the end of each reporting period of whether there are any indications assets may be impaired. If any such indications exist, the recoverable amount of each individual asset will be estimated unless an asset generates cash inflow that is not largely independent of other assets or other groups of assets (cash-generating units).

Goodwill acquired through business combinations is attributed to the cash-generating unit that derives benefit from the acquisition. Cash-generating units are defined as the groups of companies that operate economically independently. The allocation is made no later than in the period following the acquisition date. In the previous year, the already implemented conversion of the internal reporting system for monitoring and managing the KAP Group and its segments led to impairment tests for goodwill and assets being carried out at segment level since then.

Goodwill or other intangible assets with indefinite useful lives are tested for impairment annually as of each reporting date – and whenever there are indications of an impairment – by comparing the carrying amount with the recoverable amount at the level of the cash-generating unit. If the carrying amount of the unit is higher than its recoverable amount, the impairment losses recognised in the amount of the difference first reduce the carrying amount of goodwill and then the other assets of the unit pro rata. All impairment losses are recognised immediately in the profit or loss for the period. For assets with finite useful lives, the depreciation or amortisation amounts for future periods are adjusted accordingly. If there is any indication that an impairment loss recognised for an asset other than goodwill in earlier reporting periods no longer exists or no longer exists in full, the recoverable amount of this asset must be reassessed. The difference resulting from the change of assessment is recognised directly in profit or loss for the period as a reversal of the impairment loss. Any reversal of an impairment loss to the newly determined recoverable amount is limited to the carrying amount that would have arisen if the cost had been amortised. The depreciation or amortisation amounts of future periods are adjusted accordingly.

Any impairment loss for a cash-generating unit is determined based on the value in use. The present value of the future net cash flows is used as a basis because reference cannot be made to an active market. The forecast of net cash inflows is based on a management-approved single-value budget planning calculation of the KAP Group for the next three years, which leads to a steady state, on the basis of which the perpetuity is calculated. The plan is based on the general development of the respective markets, the profitability of the business in the past and the forecasts of renowned market research institutions. Uncertainties are handled with sensitivity analyses. For the impairment test of goodwill and intangible assets with indefinite useful lives, a prolongation of the existing infection control measures and the disrupted supply chains with continuing above-average increases in prices for raw materials and energy beyond the first half of 2022 is not expected and a medium-term recovery is assumed in all segments, leading to a steady state on which the calculation of the perpetuity is based. For the detailed planning period, average annual revenue growth rates of 0.1% (flexible films), 8.2% (engineered products) and 16.7% (surface technologies) are assumed, and average normalised EBITDA margins of 15.8% (flexible films), 9.0% (engineered products) and 23.7% (surface technologies) are assumed for the derivation of cash flows.

The cost of capital is calculated as the weighted average cost of equity and borrowing (weighted average cost of capital – WACC). This is calculated using the capital asset pricing model (CAPM) on the basis of current market expectations. Specific peer group information for beta factors, capital structure data and borrowing costs is used to determine the risk-adjusted interest rate for the purpose of impairment testing. Periods not included in the planning calculations are represented by the recognition of a terminal value.

The cost-of-capital rates were 4.70% for engineered products (previous year: 4.39%), 5.91% for flexible films (previous year: 5.34%) and 7.38% for surface technologies (previous year: 7.19%). Standardised tax rates of 25% to 30% have been used, depending on which country the cash-generating units belong to. With a growth rate of 0% (previous year: 0%), this results in a pre-tax interest rate of 5.98% for engineered products (previous year: 5.74%), 8.22% for flexible films (previous year: 7.17%) and 9.48% for surface technologies (previous year: 8.95%).

For the impairment test of goodwill and assets, sensitivity analyses were conducted and a 10% reduction of future cash flows or a 10% increase in weighted cost of capital were assumed. The sensitivity analyses in all segments reached the conclusion that there would be no need for impairment.

In the engineered products segment, an impairment test was conducted in 2019 due to indication of impairment, leading to impairment of production facilities at several sites totalling €9.5 million. As a result of the restructuring initiated in 2020 and completed in 2021 and thus the strengthening of this segment, there is no longer any indication that the assets could be impaired. The recoverable amount of the cash-generating unit calculated on this basis led to a reversal of the impairment to the amortised cost of the impaired assets.

Details of the KAP Group's impairment methods for financial assets and liabilities to be accounted for in accordance with IFRS 9 and the calculation of loss allowances are presented in note 42 in the section on credit and default risk.

**Financial assets accounted for using the equity method**
In the case of investments in associates and joint ventures accounted for using the equity method, the initial recognition is made at cost plus any resulting negative goodwill. In the subsequent periods, the carrying amount of the shares changes in line with the pro rata profit or loss for the period. Distributions received are deducted from the carrying amount. If necessary, depreciation is carried out to the lower fair value.

**Other financial assets**
Shares in non-consolidated affiliated companies, shareholdings not accounted for using the equity method and investment securities are classified as at fair value through other comprehensive income. Changes in fair value are recognised as gains or losses in other comprehensive income.

Loans are measured at amortised cost in accordance with their classification. After initial recognition at cost, other financial assets are recognised at amortised cost on subsequent reporting dates. Impairment losses recognised on the reporting date are taken into account through appropriate loss allowances.

**Deferred taxes**
Deferred taxes are recognised in respect of temporary valuation differences. The calculation is based on the concept of the statement-of-financial-position-oriented liability method, which encompasses all accounting differences and valuation differences recognised through profit and loss or directly in equity if these lead to an increase or decrease in the tax burden in future.

Deferred taxes on tax loss carry-forwards are capitalised if it is sufficiently likely that sufficient taxable income will be available in future to be able to use these loss carry-forwards.

Deferred taxes are calculated on the basis of the tax rates that apply or that are expected to apply in the individual countries at the time of realisation. Temporary valuation differences resulting from previous reporting periods are adjusted accordingly in the event of changes in tax rates.

Deferred tax assets and tax liabilities are offset if a legally enforceable right applies to offset current tax assets against current tax liabilities and they relate to income taxes levied by the same tax authority for the same tax subject.

**Inventories**
Inventories are measured at the lower of cost and net realisable value.

The cost of raw materials, supplies and merchandise includes all directly attributable costs.

When determining the cost of manufacture of finished and unfinished goods, in addition to direct costs, the production-related overheads are included on the basis of normal capacity utilisation.

Inventory risks with respect to storage time and recoverability leading to a net realisable value lower than cost are taken into account with appropriate write-downs. If the reasons for an impairment loss that occurred in previous periods no longer apply, the impairment loss is reversed up to the revised net realisable value.

**Other financial receivables and assets**
Unless they are derivative financial instruments, other financial receivables and assets are classified as financial assets measured at amortised cost. On initial recognition on the settlement date, they are recognised at cost, taking account of directly attributable transaction costs. On the reporting date, the measurement is carried out at amortised cost. Appropriate loss allowances are made based on the expected credit losses over the term. Uncollectible receivables are recognised as bad debts. Interest-free or low-interest receivables due in more than one year are recognised at their present value.

If an impairment loss that was recognised in previous reporting periods has decreased in the past financial year due to circumstances that have arisen in the meantime, the original impairment is adjusted through profit or loss, but at most until the carrying amount corresponds to the amortised cost that would have resulted without impairment.

Receivables from the group's factoring facilties are only recognised as assets in the balance sheet if the risks and opportunities associated with the receivables, particularly the credit and default risk, are largely not transferred. Any repayment obligations arising from these are recognised as current financial liabilities.

**Income tax receivables and income tax liabilities**
Income tax liabilities for current and earlier periods are recognised as liabilities at the amount still payable. If the advance payments exceed the amount owed, the difference is recognised as an income tax receivable.

**Non-current assets held for sale and discontinued operations**
Non-current assets and/or disposal groups, as well as liabilities attributed to non-current assets and disposal groups, are classified as held for sale if the relevant carrying amounts are realised principally through sale transactions and not through continued use.

These non-current assets and/or disposal groups are recognised on the reporting date at the lower of carrying amount and fair value less disposal costs. They are reported separately from other assets in the statement of financial position. Liabilities from non-current assets and disposal groups classified as held for sale are shown separately from other liabilities.

**Provisions for pensions and similar obligations**
Provisions for pensions are based on actuarial assessments at the end of each financial year using the 2018 G Heubeck mortality tables. The obligations are calculated using the projected unit credit method. In addition to the pension entitlements already earned in previous periods, certain trend assumptions are taken into account in the calculation.

Actuarial gains and losses are always recognised in full in equity under reserves as other comprehensive income. Service cost is recognised in personnel expenses.

Qualifying insurance policies are treated as plan assets and measured at fair value on the reporting date. The value of plan assets reduces the present value of the defined benefit obligations. The plan assets are reported net in the statement of financial position, up to a maximum of the present value of the obligation.

The expenses from the compounding of interest on pension provisions and the income from the plan assets are netted and recognised in the financial result.

**Other provisions**
Other provisions comprise all present obligations to third parties as a result of past events where a claim is probable and the expected amount of which can be estimated with a sufficient degree of certainty.

They are measured at the settlement amount with the highest probability of occurrence, taking future cost increases into account.

Provisions are only made for restructuring measures if there is a constructive obligation to restructure. This requires the existence of a formal restructuring plan specifying the business area concerned, the most important locations, the number of employees concerned, the costs and the date of implementation, and requires that a justified expectation that the measure will be implemented has been created among those affected through the start of implementation or announcement to those affected.

**Share-based remuneration**
A share-based payment component has been agreed with the Management Board. The share-based payment consists of the issue of shares as part of the annual bonus and the award of virtual shares. The share-based payment is accounted for in accordance with the provisions of IFRS 2. From KAP AG's point of view, only a cash settlement obligation exists in connection with the share-based payment, which is why under IFRS 2.42 the payment is accounted for in accordance with the requirements applying to cash-settled share-based payment transactions. A provision proportionate to the amount of the fair value of the payment obligation is recognised on the respective reporting date and any changes in the fair value are recognised through profit and loss. The fair value is determined using an accepted valuation methodology.

**Financial liabilities**
Financial liabilities are classified as measured at amortised cost. Directly attributable transaction costs are recognised immediately as expenses in profit or loss for the period. On the reporting date, the measurement is carried out at amortised cost using the effective interest method.

Liabilities from leasing are recognised at the present value of the minimum lease payments. The resulting financing costs are recognised in the financial result as interest expenses.

**Revenue recognition**

Revenue is recognised when control over the distinct goods or services is transferred to the customer. This means that the customer has the ability to determine the use of the transferred goods or services and derives essentially all of the remaining benefits from them. Revenue is recognised when there is an enforceable right to receive payment from the customer. Revenue corresponds to the contractually agreed transaction price.

If the agreed transaction price includes variable components, the amount of consideration is determined either by the expected method or by the most probable amount.

The period between the payment by the customer and the transfer of goods or services to the customer is one year or less. For this reason, no financing component is included in the transaction price. If a contract comprises several distinct performance obligations, the transaction price is allocated between the individual performance obligations on the basis of the standalone selling prices. As a rule, goods and services are sold at standalone selling prices. Revenue from customer contracts is recognised at a point in time or over time. If the performance of the service and the receipt of the payment from a customer do not fall on the same date, contract assets or liabilities may arise.

The conclusion of a new contract with customers may result in contract acquisition costs. Since the term of contracts for which the contract acquisition costs are incurred and the corresponding payback period for contract acquisition costs is one year or less, contract acquisition costs are not capitalised but recognised as an expense.

Revenue from the sale of goods: revenue from the sale of goods is recognised at the time of delivery because control is transferred to the customer at this point in time. The right to payment exists at the time of delivery.

Bill-and-hold agreements are not generally concluded. If a bill-and-hold agreement is concluded at the express request of the customer, revenue is recognised at the time of completion because control is transferred to the customer even without physical delivery of the goods. In the case of a bill-and-hold agreement, the goods will be identified separately as those of the customer and may not be used elsewhere.

In a consignment contract, control of the goods transfers to the customer when the goods are removed from the consignment warehouse because the customer cannot obtain benefit from use of the goods before this point in time. Revenue is recognised at this time.

Revenue from the provision of services: revenue from the rendering of services is recognised over the period in which the services are provided (on a straight-line basis or in accordance with the stage of completion). The right to payment arises after the provision of a service when an invoice is issued. Typically, no variable payments are agreed. In the case of long-term orders, invoices are usually issued to the customer on a monthly basis. The Group uses output-oriented methods for revenue recognition because this allows the transfer of control over the asset to the customer to be reflected more appropriately in the consolidated financial statements. In the case of advance payments, contractual liabilities are formed.

Warranties: in connection with the sale of its goods/services, the Group is subject only to statutory or customary warranty obligations.

**Earnings per share**
Earnings per share are calculated by dividing the result for the period attributable to the ordinary shareholders of the parent company (consolidated annual result of KAP AG shareholders) by the average number of ordinary shares outstanding in the reporting period.

**Estimates**
As part of the preparation of the consolidated financial statements, estimates must be made for various items that can affect the recognition and measurement of assets, liabilities, financial instruments, expenses, income and contingent liabilities. The actual valuations may deviate from the estimated amounts. The valuations are adjusted in the period in which the original estimate is changed. Any resulting expenses or income are recognised through profit or loss in the relevant reporting period. Assumptions and estimates must primarily be made when determining the useful lives of non-current assets, when determining lease terms and the incremental borrowing rate of leases, in impairment tests and purchase price allocations and when recognising provisions for pensions, taxes and risks from business operations. The carrying amounts of the material items with estimation uncertainties mentioned above can be found in the individual descriptions of the associated items in the notes to the consolidated financial statements.

## 6. NEW ACCOUNTING STANDARDS

a) Standards/interpretations to be used for the first time in the 2021 financial year:

| Standard/interpretation | | Mandatory from [1] | Adopted by the European Commission | Effects |
|---|---|---|---|---|
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Support for those preparing financial statements during the transition in connection with the IBOR reform (replacement of the interest rate benchmark with another interest rates benchmark) | 01/01/2021 | Yes | None |
| COVID 19-related amendments to IFRS 16 | IFRS 16 Leases – COVID 19-related lease concessions | 01/06/2020 | Yes | None |
| COVID 19-related amendments to IFRS 16 | IFRS 16 Leases – COVID 19-related lease concessions after June 30, 2021 | 01/04/2021 | Yes | None |
| Amendments to IFRS 4 | Amendments to IFRS 4 Insurance Contracts: Deferral of the first-time application of IFRS 9 by another year to the date of first-time application of IFRS 17 Insurance Contracts (2023) | 01/01/2021 | Yes | None |

[1] For financial years beginning from or after that date. At the time of adoption, reference was made to the date indicated by the EU.

b) Standards/interpretations to be used for the first time in future financial years:

| Standard/interpretation | | Erstmals verpflichtend anzuwenden ab[1] | Adopted by the European Commission | Foreseeable effects |
|---|---|---|---|---|
| Amendments to IAS 16, IAS 37, IAS 41, IFRS 1, IFRS 3, IFRS 16 and IFRS 9 (annual improvements, 2018–2020 cycle) | Amendments to IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and IFRS 3 Business Combinations: Definition of which costs a company must include when assessing whether a contract will be loss-making; business combinations; the inclusion of amounts of this nature when calculating acquisition costs is not allowed; improvements result in narrow-scope amendments to IFRS 1, IFRS 9 and IAS 41 (annual improvements) | 01/01/2022 | Yes | None |
| Amendments to IFRS 1 and amendments to IAS 8 | Amendments to IAS 1 Presentation of Financial Statements: Improvements of accounting policy disclosures and corresponding amendment of the guidance in Practice Statement 2 and IAS 8 Accounting Policies: Changes in Accounting Estimates and Errors: Clarification of the distinction between changes in accounting policies and accounting estimates | 01/01/2023 | Yes | None |
| IFRS 17/Amendments to IFRS 17 | Insurance operations/contracts | 01/01/2023 | Yes | None |

[1] For financial years beginning from or after that date. At the time of adoption, reference was made to the date indicated by the EU.

c) Standards/interpretations not yet adopted by the European Commission:

| Standard/interpretation | | Foreseeable effects |
|---|---|---|
| Amendment to IAS 1 | Amendment to IAS 1 Presentation of Financial Statements: Classification of liabilities as current depends on the company's rights as of the reporting date: If the right to settlement of the liability can be deferred by at least twelve months after the end of the reporting period, the liability is classified as non-current | None |
| Amendment to IFRS 17 | Narrow-scope amendment to IFRS 17 introduces the option of applying a classification overlay approach if certain requirements are met. This allows the comparative information about financial instruments in the year before the first-time application of IFRS 17, i.e. for 2022, to be made more meaningful because on the first-time application of IFRS 9, no retrospective application is necessary and thus the basis of comparison for the investments may be missing | None |
| Amendments to IAS 12 | Amendments to IAS 12 regarding existing uncertainties on accounting for deferred taxes in connection with leases and decommissioning obligations | None |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## FIXED ASSETS

The list of shareholdings is shown under note 48 of these notes to the consolidated financial statements.

The composition and development of the fixed assets is shown separately in the consolidated statement of changes in fixed assets in note 10.

### 7. INTANGIBLE ASSETS

The carrying amount at the end of the year relates to software and licences, goodwill, advance payments made on intangible assets and the assets for brands, technologies and customer relationships resulting from the purchase price allocations.

The intangible assets with indefinite useful lives are essentially brand names that have been established in the market for many years and the end of whose useful lives is not foreseeable. In the 2018 financial year, the Heiche brand was acquired as part of the acquisition of the Heiche Group.

In connection with the purchase price allocation of AerO Holding B.V. and AerO Coated Fabrics B.V. €5,124 thousand of technology was disclosed and capitalised. The useful life is ten years.

Customer relationships as of 31 December 2021 in the amount of €12,538 thousand (previous year: €15,061 thousand) are largely accounted for by the **flexible films** segment at €1,329 thousand (previous year: €1,661 thousand) and the **surface technologies** segment at €11,122 thousand (previous year: €13,401 thousand). The useful lives are three to nine years.

Of the goodwill recognised as of 31 December 2021 amounting to €12,251 thousand (previous year: €7,350 thousand), €8,401 thousand (previous year: €3,466 thousand) is attributable to the **flexible films** segment and €3,850 thousand (previous year: €3,884 thousand) is attributable to the **surface technologies** segment.

The impairment tests conducted as of the end of the year did not reveal any need for impairment.

## 8. PROPERTY, PLANT AND EQUIPMENT

In the reporting year, impairments of originally €9,337 thousand recognised on property, plant and equipment of the engineered products segment due to underutilisation in 2019 were reversed by the amount still remaining on the reporting date of €6,231 thousand as a result of permanently positive earnings forecasts. The restructuring of the segment was completed in the reporting year.

### Leases

The KAP Group has concluded leases for various office and production areas and equipment and vehicles. The lease terms are generally between 1 and 18 years. For leases with a term of up to twelve months and for low-value leases, the Group applies the relief provisions pursuant to IFRS.

The following items are recognised in the statement of financial position in connection with leases:

| Right-of-use assets | 2021 | 2020 |
|---|---|---|
| Land and buildings | 18,720 | 12,647 |
| Technical equipment and machinery | 1,163 | 108 |
| Other equipment, plant and office equipment | 1,115 | 975 |
| **Total** | **20,998** | **13,730** |

| Lease liabilities | 2021 | 2020 |
|---|---|---|
| Current | 2,578 | 1,779 |
| Non-current | 19,946 | 12,158 |
| **Total** | **22,524** | **13,937** |

Additions to the right-of-use assets during the 2021 financial year amounted to €8,090 thousand (previous year: €587 thousand).

Of which, €979 thousand is accounted for by the right-of-use asset for the leased-back parts of the land and buildings resulting from the sale-and-lease-back transaction for the commercial property at the headquarters in Fulda. The contingent asset of €7,000 thousand disclosed under 39., which results from a condition precedent in the purchase agreement, was not taken into account when calculating the carrying amount.

| Depreciation of right-of-use assets | 2021 | 2020 |
|---|---|---|
| Land and buildings | 1,596 | 1,439 |
| Technical equipment and machinery | 251 | 41 |
| Other equipment, plant and office equipment | 522 | 473 |
| **Total** | **2,369** | **1,953** |

| Expenses for leases | 2021 | 2020 |
|---|---|---|
| Interest expenses (recognised in finance costs) | 397 | 400 |
| Expenses in connection with short-term leases (recognised in other operating expenses) | 147 | 27 |
| Expense for leases of low-value assets that are not included in the current leases mentioned above (recognised in other operating expenses) | 64 | 64 |
| **Total** | **608** | **491** |

Total payments for leases amounted to €3,459 thousand (previous year: €2,370 thousand).

Government grants of €3,346 thousand (previous year: €3,563 thousand) were recognised in the 2021 financial year. Government grants were largely awarded for the acquisition of certain buildings and machinery at the Heinsdorfergrund, Leisnig and Döbeln sites. The conditions of these grants were met in full.

## 9. INVESTMENT PROPERTIES

The disclosure concerns commercial land and buildings of Mehler Aktiengesellschaft in Flieden, Germany and commercial land of GbR MEHLER AG/DAUN & Cie. AG in Stadtallendorf, which is measured using the cost model.

The KAP Group determines the fair value of the investment properties using the German income approach taking account of the German Regulation on the Principles for Determining the Market Value of Property (ImmoWertV) (fair value hierarchy level 2). The expected future revenues and expenditures of a property are discounted over a period of an average of ten years to the valuation date as the present value. Contractual terms of current tenancies form the basis of the expected rental income; rental increase rates were not taken into account. On the cost side, maintenance expenditures, risks of loss of rental income and cost increases of 2% per year, derived from the medium-term expected increase in the consumer price index, are estimated.

The following assumptions were made to determine the key valuation parameters such as the standard land value, property yield and remaining useful life: The standard land values determined by appraisal committees served as the basis. The property yield is determined on a property-type-specific basis, depending on the location, the property type, the condition of the property, the age, the potential rental growth and the location forecast. The fixed periods for which the lease has been concluded are taken into account as the useful lives. Third-party experts were not appointed for valuation purposes.

The following overview shows the main assumptions used in determining the fair value of the investment properties as part of the valuation using the German income approach:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| **Valuation parameters** | **Range for commercial properties** | | **Range for commercial properties** | |
| Market rent (€ per m² p.a.) | 18.47 | 27.76 | 12.88 | 27.76 |
| Property yield (%) | 6.70 | 7.00 | 6.70 | 7.00 |
| Remaining useful life (years) | 1.00 | 14.00 | 1.00 | 15.00 |
| Multiplier | 0.93 | 8.91 | 0.93 | 9.28 |

The property yield was identified as the most important value driver influenced by the market. After taking account of a customary range of 6.50% to 8.50%, the following income figures were determined:

| | 2021 Range | | 2020 Range | |
|---|---|---|---|---|
| | 6.50% | 8.50% | 6.50% | 8.50% |
| Income value (in € thousands) | 6,927 | 6,045 | 7,358 | 6,385 |

The decrease in the income figures is largely due to higher management costs in 2021.

## 10. OTHER FINANCIAL ASSETS

In addition to shares in affiliated companies amounting to €0 thousand (previous year: €29 thousand) and investments in companies accounted for at cost amounting to €54 thousand (previous year: €50 thousand), this item mainly comprises other loans accounted for at cost of €142 thousand (previous year: €152 thousand). The loans are based on long-term loan agreements.

Details on the development of the fair value of companies in which participations are held can be found in note 42 on financial instruments.

# DEVELOPMENT OF GROUP FIXED ASSETS FROM 1 JANUARY TO 31 DECEMBER 2021

| | Acquisition/manufacturing costs | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| in € thousands | 01/01/2021 | Currency adjustment | Change in consolidated group | Additions | Transfers | Disposals | Reclassifications[1] | 31/12/2021 |
| **Intangible assets** | | | | | | | | |
| Software and licences | 6,245 | –123 | – | 481 | 587 | –295 | 215 | 7,111 |
| Development costs | 210 | –3 | – | 115 | – | –8 | – | 314 |
| Brand and brand name | 3,435 | –2 | – | – | – | – | – | 3,433 |
| Technology | 984 | –10 | 5,124 | – | – | – | – | 6,098 |
| Customer relationships | 24,134 | –176 | – | 122 | – | – | – | 24,080 |
| Other internally generated intangible assets | 77 | – | – | 91 | – | – | – | 168 |
| Goodwill | 12,889 | –26 | 4,937 | – | – | – | – | 17,800 |
| Advance payments made on intangible assets | 118 | – | – | 381 | –91 | – | – | 408 |
| | **48,093** | **–340** | **10,061** | **1,190** | **496** | **–303** | **215** | **59,412** |
| **Property, plant and equipment** | | | | | | | | |
| Land and buildings | 114,499 | 1,758 | 182 | 8,644 | 2,094 | –10,609 | – | 116,568 |
| Technical equipment and machinery | 277,600 | 4,294 | 1,680 | 3,308 | 16,879 | –16,812 | – | 286,949 |
| Other equipment, plant and office equipment | 49,352 | 458 | 11 | 3,037 | 939 | –4,120 | 927 | 50,604 |
| Advance payments and assets under construction | 15,811 | 612 | 21 | 23,166 | –20,409 | –67 | – | 19,134 |
| | **457,263** | **7,122** | **1,894** | **38,155** | **–496** | **–31,609** | **927** | **473,256** |
| **Investment properties** | **10,038** | **–** | **–** | **3** | **–** | **–** | **–** | **10,041** |
| **Financial assets accounted for using the equity method** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Other financial assets** | | | | | | | | |
| Shares in affiliated companies | 99 | – | –28 | – | – | –71 | – | – |
| Investments in companies accounted for at cost | 200 | – | – | 4 | – | – | – | 204 |
| Loans to affiliated companies | – | – | – | – | – | – | – | – |
| Loans to participations | 220 | – | – | – | – | – | – | 220 |
| Other loans | 152 | –2 | – | – | – | –8 | – | 142 |
| Investment securities | – | – | – | – | – | – | – | – |
| | **671** | **–2** | **–28** | **4** | **–** | **–79** | **–** | **566** |
| | **516,065** | **6,779** | **11,927** | **39,352** | **–** | **–31,990** | **1,142** | **543,275** |

[1] Reclassification to fixed assets of the assets still held as non-current assets held for sale in the previous year.

| Accumulated depreciation and amortisation | | | | | | | | | Carrying amounts | |
|---|---|---|---|---|---|---|---|---|---|---|
| 01/01/2021 | Currency adjustment | Change in consolidated group | Additions | Reversal of impairment losses | Transfers | Disposals | Reclassifica-tions[1] | 31/12/2021 | 31/12/2021 | 01/01/2021 |
| | | | | | | | | | | |
| 5,081 | –217 | – | 636 | – | – | –295 | 98 | 5,303 | 1,808 | 1,164 |
| 211 | –5 | – | 10 | – | – | –8 | – | 208 | 106 | –1 |
| 118 | –3 | – | 3 | – | – | – | – | 118 | 3,315 | 3,317 |
| 231 | –3 | – | 597 | – | – | – | – | 825 | 5,273 | 753 |
| 9,073 | –88 | – | 2,557 | – | – | – | – | 11,542 | 12,538 | 15,061 |
| – | – | – | – | – | – | – | – | – | 168 | 77 |
| 5,539 | 10 | – | – | – | – | – | – | 5,549 | 12,251 | 7,350 |
| – | – | – | – | – | – | – | – | – | 408 | 118 |
| **20,253** | **–306** | – | **3,803** | **–** | **–** | **–303** | **98** | **23,545** | **35,867** | **27,840** |
| | | | | | | | | | | |
| 54,378 | 833 | – | 4,300 | –3,298 | – | –5,955 | – | 50,258 | 66,310 | 60,121 |
| 216,935 | 3,301 | – | 12,557 | –2,682 | –200 | –15,539 | – | 214,372 | 72,578 | 60,665 |
| 36,044 | –576 | – | 4,313 | –251 | 200 | –3,925 | 364 | 36,169 | 14,435 | 13,308 |
| 12 | 1 | – | 101 | – | – | – | – | 114 | 19,020 | 15,799 |
| **307,370** | **3,558** | **–** | **21,271** | **–6,231** | **–** | **–25,420** | **364** | **300,913** | **172,343** | **149,893** |
| **8,077** | **–** | **–** | **76** | **–** | **–** | **–** | **–** | **8,153** | **1,888** | **1,961** |
| **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | | | | | | | | | | |
| 70 | – | – | – | – | – | –70 | – | – | – | 29 |
| 150 | – | – | – | – | – | – | – | 150 | 54 | 50 |
| – | – | – | – | – | – | – | – | – | – | – |
| 220 | – | – | – | – | – | – | – | 220 | – | – |
| – | – | – | – | – | – | – | – | – | 142 | 152 |
| – | – | – | – | – | – | – | – | – | – | – |
| **440** | **–** | – | **–** | **–** | **–** | **–70** | **–** | **370** | **196** | **231** |
| **336,140** | **3,252** | – | **25,151** | **–6,231** | **–** | **–25,793** | **462** | **332,982** | **210,294** | **179,925** |

# DEVELOPMENT OF GROUP FIXED ASSETS FROM 1 JANUARY TO 31 DECEMBER 2020

| in € thousands | Acquisition/manufacturing costs | | | | | | |
|---|---|---|---|---|---|---|---|
| | 01/01/2020 | Currency adjustment | Additions | Transfers | Disposals | Reclassification [1] | 31/12/2020 |
| **Intangible assets** | | | | | | | |
| Software and licences | 7,674 | –89 | 447 | 433 | –177 | –2,043 | 6,245 |
| Development costs | 202 | 8 | – | – | – | – | 210 |
| Brand and brand name | 3,431 | 4 | – | – | – | – | 3,435 |
| Technology | 1,044 | –60 | – | – | – | – | 984 |
| Customer relationships | 26,331 | –1,197 | – | – | – | –1,000 | 24,134 |
| Other internally generated intangible assets | 77 | – | – | – | – | – | 77 |
| Goodwill | 15,859 | –994 | – | – | – | –1,976 | 12,889 |
| Advance payments made on intangible assets | 41 | – | 279 | –202 | – | – | 118 |
| | **54,659** | **–2,328** | **726** | **231** | **–177** | **–5,018** | **48,093** |
| **Property, plant and equipment** | | | | | | | |
| Land and buildings | 135,184 | –2,519 | 787 | 99 | –1,549 | –17,503 | 114,499 |
| Technical equipment and machinery | 286,568 | –6,806 | 2,679 | 3,181 | –6,822 | –1,200 | 277,600 |
| Other equipment, plant and office equipment | 53,649 | –550 | 2,866 | 504 | –2,853 | –4,264 | 49,352 |
| Advance payments and assets under construction | 5,398 | –565 | 15,757 | –4,421 | –272 | –86 | 15,811 |
| | **480,799** | **–10,440** | **22,089** | **–637** | **–11,496** | **–23,052** | **457,263** |
| **Investment properties** | **19,334** | **–** | **145** | **406** | **–** | **–9,847** | **10,038** |
| **Financial assets accounted for using the equity method** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Other financial assets** | | | | | | | |
| Shares in affiliated companies | 99 | – | – | – | – | – | 99 |
| Shares in participations | 200 | – | – | – | – | – | 200 |
| Loans to participations | 1,249 | – | – | – | –1,029 | – | 220 |
| Other loans | 189 | –35 | – | – | –2 | – | 152 |
| | **1,737** | **–35** | **–** | **–** | **–1,031** | **–** | **671** |
| | **556,529** | **–12,803** | **22,960** | **–** | **–12,704** | **–37,917** | **516,065** |

[1] Reclassification to non-current assets held for sale.

| Accumulated depreciation and amortisation | | | | | | | Carrying amounts | |
|---|---|---|---|---|---|---|---|---|
| 01/01/2020 | Currency adjustment | Additions | Reversal of impairment losses | Disposals | Reclassification [1] | 31/12/2020 | 31/12/2020 | 01/01/2020 |
| | | | | | | | | |
| 5,853 | –55 | 728 | – | –137 | –1,308 | 5,081 | 1,164 | 1,820 |
| 202 | 9 | – | – | – | – | 211 | –1 | – |
| 111 | 4 | 3 | – | – | – | 118 | 3,317 | 3,320 |
| 143 | 2 | 86 | – | – | – | 231 | 753 | 901 |
| 6,359 | –66 | 3,380 | – | – | –600 | 9,073 | 15,061 | 19,972 |
| – | – | – | – | – | – | – | 77 | 77 |
| 6,573 | –1,034 | – | – | – | – | 5,539 | 7,350 | 9,286 |
| – | – | – | – | – | – | – | 118 | 41 |
| **19,241** | **–1,140** | **4,197** | **–** | **–137** | **–1,908** | **20,253** | **27,840** | **35,417** |
| | | | | | | | | |
| 64,990 | –1,128 | 5,368 | – | –1,457 | –13,395 | 54,378 | 60,121 | 70,194 |
| 216,790 | –4,699 | 16,388 | –4,448 | –6,071 | –1,025 | 216,935 | 60,665 | 69,778 |
| 37,056 | –349 | 4,476 | – | –2,304 | –2,835 | 36,044 | 13,308 | 16,593 |
| 58 | –2 | 86 | – | –130 | – | 12 | 15,799 | 5,340 |
| **318,894** | **–6,178** | **26,318** | **–4,448** | **–9,962** | **–17,254** | **307,370** | **149,893** | **161,904** |
| **14,966** | **–** | **208** | **–** | **–** | **–7,097** | **8,077** | **1,961** | **4,368** |
| **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | | | | | – | | | |
| 71 | –1 | – | – | – | – | 70 | 29 | 28 |
| 150 | – | – | – | – | – | 150 | 50 | 50 |
| 220 | – | – | – | – | – | 220 | – | 1,029 |
| – | – | – | – | – | – | – | 152 | 189 |
| **441** | **–1** | **–** | **–** | **–** | **–** | **440** | **231** | **1,296** |
| **353,543** | **–7,319** | **30,723** | **–4,448** | **–10,099** | **–26,259** | **336,140** | **179,925** | **202,986** |

As the figures are presented in € thousands, the numbers may not add up due to rounding.

## 11. DEFERRED TAX ASSETS

Deferred taxes are allocable to the following items:

| | 31/12/2021 | | 31/12/2020 | |
|---|---|---|---|---|
| in € thousands | Deferred tax assets | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities |
| Intangible assets | 770 | 4,247 | 393 | 3,498 |
| Property, plant and equipment | 837 | 11,250 | 2,027 | 8,649 |
| Investment properties | – | – | – | 30 |
| Financial assets | 29 | 719 | 281 | – |
| Inventories | 1,061 | – | 1,503 | – |
| Receivables and assets | 441 | 444 | 270 | 9 |
| Pension provisions | 2,526 | – | 2,824 | – |
| Other provisions | 995 | 7 | 745 | 449 |
| Liabilities | 6,183 | 400 | 4,457 | 207 |
| Other | 204 | 1 | 234 | 1 |
| **Gross value of deferred taxes on temporary valuation differences** | **13,046** | **17,068** | **12,733** | **12,843** |
| Loss allowances for temporary valuation differences | –592 | – | –2,020 | – |
| Tax loss carry-forwards | 6,857 | – | 6,268 | – |
| Loss allowances for tax loss carry-forwards | –4,406 | – | –5,470 | – |
| Offsetting | –10,540 | –10,540 | –6,200 | –6,200 |
| | **4,365** | **6,528** | **5,311** | **6,643** |

Deferred taxes are recognised outside profit or loss if the taxes relate valuation differences of items that are recognised, in the same or a different period, outside profit or loss. This largely applies to actuarial gains and losses from the valuation of pension obligations that are recognised in other comprehensive income.

Loss allowances were recognised for deferred tax assets if there were uncertainties as to their usability. Positive earnings forecasts for subsequent periods are decisive for the usability of deferred tax assets on temporary valuation differences. For the use of tax loss carry-forwards, the duration of the ability to carry these forward must also be taken into account.

As yet unused corporate income tax and comparable foreign loss carry-forwards are as follows:

| in € thousands | 31/12/2021 | 31/12/2020 |
|---|---|---|
| Can be carried forward for up to 5 years | 8,260 | 10,042 |
| Can be carried forward for up to 10 years | 179 | 2,933 |
| Can be carried forward for more than 10 years | 2,516 | 1,249 |
| Can be carried forward indefinitely | 2,990 | 3,892 |
| | **13,945** | **18,116** |

The unused commercial tax loss carry-forwards in the amount of €15,481 thousand (previous year: €7,768 thousand) can be carried forward indefinitely.

No deferred tax assets were recognised for positive temporary valuation differences of €3,210 thousand (previous year: €9,632 thousand).

Deferred taxes of €2,049 thousand (previous year: €639 thousand) were capitalised without being offset by profits arising from the reversal of deferred tax liabilities of the same amount. The companies expect positive taxable income in the future following tax losses in the 2021 financial year or in the previous year.

Deferred taxes in connection with the actuarial gains and losses recognised directly in equity in the amount of €–191 thousand (previous year: €–39 thousand) were recognised in other comprehensive income.

## 12. INVENTORIES

| in € thousands | 31/12/2021 | 31/12/2020 |
|---|---|---|
| **Raw materials and supplies** | **30,853** | **21,052** |
| Write-down | –2,413 | –3,261 |
| Carrying amount | 28,440 | 17,791 |
| **Work in progress** | **15,401** | **13,274** |
| Write-down | –981 | –1,531 |
| Carrying amount | 14,420 | 11,743 |
| **Finished goods** | **18,032** | **15,950** |
| Write-down | –2,214 | –3,309 |
| Carrying amount | 15,818 | 12,641 |
| **Merchandise** | **697** | **436** |
| Write-down | –7 | –43 |
| Carrying amount | 690 | 392 |
| **Advance payments made on inventories** | **229** | **254** |
| | **59,597** | **42,822** |

Of the total amount, inventories with a carrying amount of €34,613 thousand (previous year: €17,738 thousand) were recognised at net realisable value.

## 13. TRADE RECEIVABLES

| in € thousands | 31/12/2021 | 31/12/2020 |
|---|---|---|
| Receivables from | | |
| – third parties | 38,435 | 43,347 |
| | **38,435** | **43,347** |

Trade receivables are amounts owed by customers for goods sold or services provided in the ordinary course of business. All trade receivables are due within one year and are therefore classified as current. Trade receivables are initially recognised at the amount of the unconditional consideration. The Group holds trade receivables with the objective of collecting the contractual cash flows and subsequently measures them at amortised cost using the effective interest method.

Loss allowances of €2,386 thousand (previous year: €2,398 thousand) were recognised on receivables from third parties.

As of the reporting date, trade receivables of €9,578 thousand (previous year: €0 thousand) were sold as part of a non-recourse sale of receivables to a factoring company. The item recognised as of 31 December 2021 recognises only the unsold receivables.

Details of the KAP Group's impairment policies for trade receivables and the calculation of the loss allowance are presented in note 42 in the section on credit and default risk.

## 14. INCOME TAX RECEIVABLES

The disclosure as of the reporting date relates to refund claims from excess payments made in advance.

## 15. OTHER RECEIVABLES AND ASSETS

The KAP Group classifies its other receivables and assets as financial assets at amortised cost if the financial asset is held in a business model whose objective is to collect contractual cash flows and these cash flows represent only payments of principal and interest on the outstanding principal amount.

| in € thousands | 31/12/2021 | 31/12/2020 |
|---|---|---|
| Financial receivables from | | |
| – third parties | 16 | 17 |
| Other assets | 10,240 | 9,751 |
| | **10,256** | **9,768** |

The other assets largely concern tax refund claims, insurance settlement claims and prepaid expenses comprising advance payments made for contracts with a term beyond the reporting date. Apart from the prepaid expenses of €1,865 thousand (previous year: €906 thousand), the other assets are of a financial nature.

All other financial assets measured at amortised cost are due within one year and are therefore current assets. Due to the short-term nature of financial assets measured at amortised cost, their carrying amount corresponds to their fair value.

Loss allowances of €1,580 thousand (previous year: €886 thousand) were recognised on financial receivables from third parties.

Details of the KAP Group's impairment policies for other financial assets measured at amortised cost and the calculation of the loss allowance are provided in note 42 in the section on credit and default risk.

## 16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cheques, cash and bank balances in various currencies with a maturity of three months or less.

Cash and cash equivalents of €407 thousand (previous year: €353 thousand) are held by MEHLER ENGINEERED PRODUCTS (Suzhou) Co. Ltd., China, and are subject to the local foreign exchange restrictions. They are therefore not available for all transactions.

## 17. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The non-current assets held for sale in the previous year comprised the commercial property in Fulda, which was sold in 2021. Because the sale process had already started in 2020, land and buildings, plant and office equipment, advance payments and assets under construction, and investment properties were reclassified to non-current assets held for sale and recognised at a value of €7,989 thousand. With the sale of the property in November 2021, disposals were made of non-current assets held for sale in an amount of €9,090 thousand. The remaining €524 thousand in this item in the reporting year relates to a part of a building that is still in the process of being sold.

The commercial property sold in Fulda was completely leased back from the buyer, which results in recognition in the Group in accordance with IFRS 16 (sale and lease back). The rollover basis method is used here. Lease liabilities are recognised on the basis of lease terms. The amortisation is carried out in line with the lease terms.

In the third quarter of 2020, the Management Board and Supervisory Board decided to sell the it/services segment. Before the sale, Mehler Aktiengesellschaft had separated the minor business area of electricity supply to the commercial property in Fulda as a small part of the it/services segment from the divested company MES GmbH (formerly MEHLER Engineering und Service GmbH) and incorporated it into Mehler Aktiengesellschaft, Fulda, and Mehler Grundstücksverwaltungs GmbH, Fulda. With the notarial contract of 17 December 2020, Mehler AG then sold all the shares in MES GmbH. The shares were sold with economic effect as of 1 January 2021.

With the notarial contract of 29 June 2021, Mehler Aktiengesellschaft, Fulda, sold all the shares in it-novum GmbH, Fulda, and it-novum Schweiz GmbH, Zurich. The shares were sold with economic effect as of 30 June 2021.

The current figures and the prior-year figures of the consolidated statement of comprehensive income/loss were adjusted accordingly in order to present the discontinued operation separately from the continuing operations. Internal transactions were fully eliminated from the consolidated financial results in accordance with IFRS 10. Consequently, only external revenues and expenses are shown under gains/losses from discontinued operations. Likewise, only external assets and liabilities are shown under discontinued operations in the consolidated statement of financial position.

Gains/losses from the discontinued it/services segment:

| in € thousands | 2021 | 2020 |
|---|---|---|
| Revenue | 7,336 | 17,047 |
| Expenses | –6,109 | –15,775 |
| Result from operating activities | 1,227 | 1,272 |
| Deferred tax expense | –93 | –235 |
| Result from operating activities after taxes | 1,134 | 1,037 |
| Gains from the sale of the it/services segment less income taxes | 16,476 | – |
| Profit from discontinued operations after taxes | 17,610 | 1,037 |
| Basic earnings per share | 2.267 | 0.133 |

it-novum GmbH, Fulda, was included in the tax group with KAP AG up to and including 30 June 2021; therefore no current income taxes were incurred in the current reporting year. Calculating on the basis of the standardised tax rate of 30% would result in income taxes of €368 thousand (previous year: €381 thousand) from operating activities.

| in € thousands | 2021 | 2020 |
|---|---|---|
| Cash flow from operating activities | 2,618 | 2,681 |
| Cash flow from investing activities | 398 | –220 |
| Cash flow for the year | 3,016 | 2,461 |

**Effect of operations on the balance sheet:**

| in € thousands | 2021 | 2020 |
|---|---|---|
| Intangible assets | – | –3,110 |
| Property, plant and equipment | – | –1,530 |
| Deferred tax assets | – | –72 |
| Inventories | – | –9 |
| Trade receivables and other assets | – | –2,171 |
| Cash and cash equivalents | – | –271 |
| | – | –7,164 |
| Assets held for sale | –8,931 | 7,164 |
| Provisions for pensions | – | –542 |
| Deferred tax liabilities | – | –306 |
| Other non-current liabilities | – | –20 |
| Current provisions | – | –1,433 |
| Current financial liabilities | – | –11 |
| Other current liabilities | – | –2,584 |
| | – | –4,896 |
| Liabilities in connection with discontinued operations | –8,340 | 4,896 |

In addition to gains/losses from the it/services segment, gains/losses from discontinued operations also includes income from released liability obligations of €595 thousand (previous year: €627 thousand). This income is connected with the MVS Group, which was sold in 2014. The KAP Group made a commitment to the acquirer for any risks arising from warranties and price audits for revenue up to the date of the disposal of the shares. The obligations are decreasing over time.

## 18. EQUITY AND RESERVES

The changes in equity are shown separately in the consolidated statement of changes in equity.

**Subscribed capital**

The subscribed capital amounts to €20,195,663.80 (previous year: €20,176,917.80) and is divided into 7,767,563 (previous year: 7,760,353) no-par-value bearer shares that each carry the same rights, and specifically the same voting rights. Each share carries one vote at the Annual General Meeting. There are no different classes of shares.

**Authorised capital**

The Annual General Meeting on 7 July 2017 authorised the Management Board, with the consent of the Supervisory Board, to increase the Company's share capital once or several times until 2022 to a limit of €3,444,711.92 by issuing up to 1,324,889 new no-par-value bearer shares, each with a proportionate interest in the share capital of €2.60, in return for cash and/or contributions in kind (authorised capital 2017). Shareholders must generally be given a shareholders' subscription right, also by way of indirect subscription under section 186 (5), sentence 1 of the German Stock Corporation Act (AktG). The Management Board is authorised to exclude the shareholders' subscription right with the consent of the Supervisory Board.

In the reporting year, the Management Board and Supervisory Board did not decide to issue any new shares (previous year: 7,210 no-par-value shares).

The issue of new shares resolved in the previous year was made in December 2020 to a member of the Management Board in return for cash contributions. The capital increase was registered and became effective in January 2021,

**Capital reserve**

The capital reserve contains the premium paid in excess of the nominal amount when the shares were issued.

**Reserves**

The Group's reserves contain differences from the currency translation of foreign separate financial statements recognised directly in equity, changes in the fair values of assets measured at fair value through other comprehensive income and actuarial gains and losses. In addition to the allocation to the reserves of KAP AG, other reserves also include the offsetting of positive and negative differences from the capital consolidation of fully consolidated subsidiaries undertaken in accordance with German commercial law prior to 1 January 2004 and retained for IFRS accounting and also the effects of measurement through other comprehensive income from the first-time application of IAS/IFRS.

**Consolidated balance sheet result**

The net result contains the results of the companies included in the consolidated financial statements generated in past periods less distributions to the shareholders of KAP AG.

**Non-controlling interests**

The non-controlling interests comprise the shares attributable to other shareholders in assets, liabilities, annual results, the pro rata differences arising from currency translation of the annual financial statements of foreign subsidiaries recognised directly in equity, and other items of other comprehensive income recognised under reserves.

**Capital management**

Our goal is to secure the Group's ability to continue as a going concern in the long term and generate appropriate returns for shareholders. This also includes ensuring that sufficient liquidity and access to the capital market are available at all times. The management of the capital structure takes account of the overall economic conditions as well as the risks arising from the underlying assets.

We aim to achieve these goals by optimising the capital structure through corporate actions, acquisitions and divestments, restructuring measures and the reduction of financial liabilities.

Capital management in the strict sense covers equity and reserves and non-current and current financial liabilities. The key figures used for capital management are identical to the items described in this way in the statement of financial position.

## 19. SHARE-BASED REMUNERATION

A share-based payment component has been agreed with the current members of the Management Board. The share-based payment consists of the issue of shares as part of the annual bonus and the award of virtual shares. The share-based payment is accounted for in accordance with the provisions of IFRS 2. From KAP AG's point of view, only a cash settlement obligation exists in connection with the share-based payment, which is why under IFRS 2.42 the payment is accounted for in accordance with the requirements applying to cash-settled share-based payment transactions. A provision proportionate to the amount of the fair value of the payment obligation is recognised on the respective reporting date and any changes in the fair value are recognised through profit and loss. The fair value is determined using an accepted valuation methodology.

The size of the annual share bonus depends on specific successes by KAP AG or other performance indicators that are determined by KAP AG's Supervisory Board at its reasonable discretion each year. The target attainment can be between 0% and 200%. 100% target attainment corresponds to a share bonus of €50,000. The number of shares is calculated by dividing the equity component by the average unweighted XETRA closing price of the KAP share for the last 20 trading days prior to approval of the annual financial statements of KAP AG for the respective year. Target attainment of 100% is assumed for the 2021 financial year, which is why the provision for the share bonus is €50,000. This provision was recognised as an expense.

Like the annual bonus, the number of virtual shares awarded to the members of the Management Board depends on specific successes by KAP AG or other performance indicators that are determined by KAP AG's Supervisory Board at its reasonable discretion each year. The target attainment can be between 0% and 200%. For Eckehard Forberich, 100% target attainment in the period from 1 March 2020 to 31 December 2020 corresponds to a reference amount of €104,167 and in subsequent calendar years corresponds to a reference amount of €125,000. For Marten Julius, 100% target attainment in the period from 1 October 2020 to 31 December 2020 corresponds to a reference amount of €25,000 and in subsequent calendar years corresponds to a reference amount of €100,000. The virtual shares are to be allotted following approval of the annual financial statements of KAP AG for the respective year.

The number of virtual shares is determined by dividing the reference amount by the average unweighted XETRA closing price of the KAP share. The virtual shares are protected from corporate actions by adjusting the number of virtual shares. Based on a reference amount of €78,125 for Eckehard Forberich and a reference amount of €18,750 for Marten Julius, Eckehard Forberich was allotted 5,628 virtual shares on 13 February 2021 and Marten Julius was allotted 1,394 virtual shares. The average unweighted XETRA closing price used for the allotment is €13.88 for Eckehard Forberich and €13.45 for Marten Julius. The share price is determined over the calendar year for which the virtual shares have been allotted.

The vesting period for the virtual shares is four years after allotment. After the end of the waiting period, a cash settlement is made for each virtual share in the amount of the average unweighted XETRA closing price of the KAP share for the last 30 trading days before the end of the waiting period, which closing price is adjusted for dividends and subscription rights. Notwithstanding this, a cap is agreed for both the members of the Management Board. For Eckehard Forberich, this is €416,667 for the virtual shares awarded for the period from 1 March 2020 to 31 December 2020 and €500,000 for the virtual shares awarded in subsequent calendar years. For Marten Julius, this cap is €100,000 for the virtual shares awarded for the period from 1 October 2020 to 31 December 2020 and €400,000 for the virtual shares awarded in subsequent calendar years.

The Black-Scholes-Merton option pricing model was used to calculate the fair value of the virtual shares allotted using the following parameters:

| in € | Tranche 1 |
|---|---|
| KAP share price | 22.80 |
| Residual term in years | 3.12 |
| Risk-free interest rate | –0.62% |
| Volatility | 41.10% |
| Expected dividend | 0.00% |
| Maximum amount per virtual share – Eckehard Forberich | 74.03 |
| Maximum amount per virtual share – Marten Julius | 71.74 |
| Value per virtual share – Eckehard Forberich | 23.72 |
| Value per virtual share – Marten Julius | 23.66 |

The KAP share price of €22.80 was determined on the XETRA trading platform as of 30 December 2021. When paying out the virtual shares, it is assumed that the dividends distributed since the allotment of the virtual shares have been reinvested. Since the allotment of the virtual shares, dividends of €1.75 per share have been distributed. The expected dividend yield was set at 0% because there is an entitlement to the dividends paid during the term when the virtual shares are paid out. The expected volatility was calculated on the basis of historical volatilities of the KAP share over a period corresponding to the remaining term of the virtual shares.

As of 31 December 2021, the fair value of a virtual share was €23.72 for Eckehard Forberich and €23.66 for Marten Julius. Market conditions were not taken into account when calculating the fair value of virtual shares.

As of 31 December 2021, Eckehard Forberich had earned 1,237 of the allocated virtual shares and Marten Julius had earned 306. The fair value of the virtual shares already vested is thus €29,342 for Eckehard Forberich and €7,240 for Marten Julius. In the 2021 financial year, a total expense of €36,606 (previous year: €0) was incurred for the virtual shares.

## 20. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The item in the statement of financial position breaks down as follows:

| in € thousands | 31/12/2021 | 31/12/2020 | 31/12/2019 | 31/12/2018 | 31/12/2017 |
|---|---|---|---|---|---|
| Pension obligations | 16,510 | 18,094 | 19,682 | 17,829 | 18,199 |
| Similar obligations | 167 | 186 | 218 | 251 | 281 |
| | **16,677** | **18,280** | **19,900** | **18,080** | **18,480** |

**Pension obligations**

The occupational pension scheme consists of defined contribution and defined benefit pension plans. In the case of the defined benefit pension plans, there is an obligation to pay the benefits promised. The actuarial risk and the investment risk remain with the Group. Provisions are recognised for the obligations from entitlements and current benefits to eligible and contributing employees and former employees and their surviving dependants. The benefits are based on individual commitments, which differ from country to country and from company to company. As a rule, they are determined based on the length of service and remuneration of employees.

In the case of the defined contribution pension plans, there are no further obligations beyond the payment of contributions to external pension providers. The amount of the obligations is calculated using actuarial methods. The current contribution payments are recognised as pension expenses for the respective year.

There are significant pension obligations from defined-benefit pension commitments at Mehler Aktiengesellschaft in the amount of €8,939 thousand (previous year: €9,996 thousand), MEHLER ENGINEERED PRODUCTS GMBH in the amount of €2,293 thousand (previous year: €2,406 thousand) and Gear Motion GmbH in the amount of €4,518 thousand (previous year: €4,685 thousand). The commitments provide for lifelong pension payments depending on length of service and gross basic salary on the occurrence of the insured event and generally also include benefits in the event of disability and death. The insured event occurs at the latest at the age of 65. As a rule, a vested entitlement exists if the beneficiary has reached the age of 35 at the time of leaving the company or if uninterrupted employment with the company began at least twelve years previously and the pension commitment has existed for at least three years. All pension schemes are already closed for new employees.

For the KAP Group, risks from pension commitments arise primarily from changes in the actuarial interest rate, the adjustment of current benefits and a longer life expectancy. Apart from the annual allocation to the pension provision, no other measures were taken to meet the existing obligations.

Pension commitments made under deferred compensation agreements are covered by the conclusion of life insurance policies as plan assets. The fair value of plan assets is significantly influenced by the interest rate environment on capital markets and the underlying guaranteed interest rate.

**Composition of pension obligations**

| in € thousands | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| Present value of the unfunded obligations | 18,001 | 19,556 | 21,479 | 19,588 | 19,943 |
| Fair value of plan assets | –1,491 | –1,462 | –1,797 | –1,759 | –1,744 |
| **Pension obligations as of 31 December** | **16,510** | **18,094** | **19,682** | **17,829** | **18,199** |

### Development of the pension provisions

| in € thousands | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| **Balance as of 1 January** | **18,094** | **19,682** | **17,829** | **18,199** | **20,667** |
| Pensions paid | –1,065 | –1,095 | –1,079 | –1,091 | –1,078 |
| Allocation | –359 | 67 | 2,951 | 694 | –951 |
| Addition | – | – | – | 27 | 745 |
| Disposal | – | –542 | – | – | –634 |
| Reversal | –152 | – | – | – | –550 |
| Currency differences | –8 | –17 | –19 | – | – |
| **Balance as of 31 December** | **16,510** | **18,094** | **19,682** | **17,829** | **18,199** |
| – of which pension provisions | 18,001 | 19,556 | 21,479 | 19,588 | 19,943 |
| – of which assets | –1,491 | –1,462 | –1,797 | –1,759 | –1,744 |

Pension obligations of €877 thousand (previous year: €1,053 thousand) are due within one year. In more than one year, but within five years, €1,875 thousand (previous year: €2,709 thousand) falls due. After more than five years, €13,924 thousand (previous year: €14,519 thousand) falls due.

### Pension expenses

| in € thousands | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| Current service cost | 49 | 25 | 24 | 24 | 23 |
| Interest expense | 170 | 172 | 319 | 327 | 251 |
| Deferred compensation | – | – | – | – | – |
| Past service cost | – | – | – | – | – |
| **Components recognised through profit and loss** | **219** | **197** | **343** | **350** | **274** |
| **Allocations of actuarial gains (–)/losses (+) recognised directly in equity** | | | | | |
| – from changes in financial assumptions | –460 | – | 2,442 | – | –1,596 |
| – from changes in demographic assumptions | – | – | – | 254 | – |
| – from adjustments based on experience | –386 | –96 | 189 | 115 | –151 |
| Actuarial gains (–)/losses (+) from plan assets | –34 | –34 | –23 | –22 | –31 |
| Effect of asset ceiling | – | – | – | –4 | 4 |
| **Components recognised directly in equity** | **–880** | **–130** | **2,608** | **343** | **–1,775** |
| | **–661** | **67** | **2,951** | **694** | **–1,501** |
| – of which allocation | –359 | 67 | 2,951 | 694 | –951 |
| – of which reversal | – | – | – | – | –550 |

The interest expense and income from plan assets are netted and recognised in the interest result, actuarial gains and losses are recognised in equity under reserves as other comprehensive income, and service cost is recognised in personnel expenses.

The actual return on plan assets amounted to €47 thousand in the reporting year (previous year: €46 thousand).

**Significant bases of calculation and assumptions for valuation**

| in % | 31/12/2021 | 31/12/2020 | 31/12/2019 | 31/12/2018 | 31/12/2017 |
|---|---|---|---|---|---|
| Actuarial interest rate | 1.10 | 0.90 | 0.90 | 1.85 | 1.85 |
| Expected return on plan assets | 1.10 | 3.00 | 3.00 | 3.00 | 3.00 |
| Future salary increases | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Future pension increases | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 |

| | 2021 | | 2020 | |
|---|---|---|---|---|
| in € thousands | Increase of 0.5 percentage points | Decrease of 0.5 percentage points | Increase of 0.5 percentage points | Decrease of 0.5 percentage points |
| Present value of the obligation | 17,007 | 19,273 | 18,355 | 20,879 |
| Interest expense | 263 | 112 | 249 | 81 |
| Service cost | 12 | 15 | 18 | 22 |

**Similar obligations**

The costs of medical care for employees in South Africa after retirement are recognised as similar obligations. Obligations resulting from this existed at KAP Textile Holdings SA Limited on the reporting date.

The following assumptions were used for the calculation:

| % | 31/12/2021 | 31/12/2020 | 31/12/2019 | 31/12/2018 | 31/12/2017 |
|---|---|---|---|---|---|
| Actuarial interest rate | 9.70 | 9.00 | 9.00 | 9.00 | 8.76 |
| Increase in healthcare costs | 6.57 | 6.73 | 6.73 | 6.73 | 7.56 |

## 21. FINANCIAL LIABILITIES

All interest-bearing liabilities of the KAP Group are recognised under financial liabilities, broken down by their maturity.

| in € thousands | 31/12/2021 | Of which remaining term of more than 1 year | 31/12/2020 | Of which remaining term of more than 1 year |
|---|---|---|---|---|
| Banks | 47,236 | 6,730 | 55,857 | 46,877 |
| Leasing | 22,524 | 19,946 | 13,937 | 12,158 |
| Third parties | 13 | – | 754 | 8 |
| | **69,773** | **26,676** | **70,548** | **59,044** |

The effective interest rates of the liabilities to banks range between 1.4% and 4.3% (previous year: 1.4% and 4.3%).

The financing by some banks is linked to an equity ratio of 30.0%. The ratio of net debt to EBITDA must not exceed 3.0. The financial covenants agreed in the loan agreement were complied with as of the end of the financial year.

In the case of financial liabilities, the fair values do not differ significantly from the carrying amounts, as the interest payments on these loans either almost correspond to current market interest rates or the loans are short-term.

## 22. OTHER NON-CURRENT LIABILITIES

In addition to liabilities with a maturity of more than one year, this item includes liabilities that are specific in terms of occurrence and amount but with a maturity of more than twelve months in the future. A discount is applied if the liabilities are not interest-bearing.

## 23. OTHER PROVISIONS

| in € thousands | 01/01/2021 | Currency difference | Allocation | Utilisation | Reversal | 31/12/2021 |
|---|---|---|---|---|---|---|
| Personnel | 13,710 | 91 | 6,937 | 10,248 | 1,266 | 9,224 |
| Complaints and guarantees | 10,244 | 25 | 1,169 | 450 | 1,621 | 9,367 |
| Restructuring measures | 609 | – | – | 332 | 152 | 125 |
| Impending losses from pending transactions | 214 | – | 27 | 178 | – | 63 |
| Other | 2,323 | 50 | 3,201 | 1,070 | 366 | 4,138 |
| provisions | **27,100** | **166** | **11,334** | **12,278** | **3,405** | **22,917** |

Personnel provisions mainly include bonuses, severance payments, flexitime credits and holiday entitlements. There are uncertainties regarding the amount and timing of the outflows. These are expected to result in disbursements within one year.

Provisions for impending losses from pending transactions were recognised if neither party had met their obligations in full. There are uncertainties regarding the amount and timing of the outflows. These are expected to result in disbursements within one year.

A large number of risks and obligations from the operating business are recognised under other provisions. There are uncertainties regarding the amount and timing of the outflows. It is expected that other provisions of €2,916 thousand (previous year: €2,553 thousand) will have a term of more than one year.

## 24. TRADE PAYABLES

Trade payables comprise outstanding liabilities arising from the provision of goods and services, all of which are due within one year. The carrying amounts of trade payables are equal to their fair values due to their short-term nature.

## 25. CURRENT INCOME TAXES

This item relates to outstanding payment obligations from current income taxes.

## 26. OTHER LIABILITIES

| in € thousands | 31/12/2021 | 31/12/2020 |
|---|---|---|
| Contract liabilities | 60 | 7 |
| Other liabilities | 11,279 | 7,449 |
| | **11,339** | **7,456** |

The revenue recognised in relation to contract liabilities in the reporting period that was included in contract liabilities at the start of the period amounted to €1,003 thousand (previous year: €2,391 thousand).

The item mainly includes accrued wages and salaries and liabilities for social security of €603 thousand (previous year: €719 thousand) and accruals from prepayments received for contracts with a term beyond the reporting date. Apart from accruals of €1,030 thousand (previous year: €731 thousand), the other liabilities are of a financial nature.

Other liabilities includes the put liabilities as other financial liability for the acquisition of the remaining 22% of AerO Holding B.V., Tilburg/Netherlands, in the amount of €3,512 thousand. Due to the structure of the call and put option for the remaining 22% of the shares, the shares were recognised as a financial liability in other liabilities using the anticipated acquisition method. At the date of the acquisition of 1 January 2021, the liability was recognised at the present value and was subsequently measured at amortised cost (effective interest method).

The other liabilities have a remaining term of up to one year.

# CONSOLIDATED STATEMENT OF INCOME

## 27. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group generates revenue from contracts with customers through the sale of its products/services both at a point in time and over time.

| in € thousands | 2021 | 2020 |
|---|---|---|
| Continuing operations | 345,617 | 322,662 |
| Discontinued operations | 7,336 | 16,028 |
| | **352,953** | **338,690** |

The breakdown of revenue by product group and geographical area is presented in the segment reporting under note 45.

## 28. OTHER OPERATING INCOME

| in € thousands | 2021 | 2020 |
|---|---|---|
| Insurance compensation | 5,923 | 13,084 |
| Reversal of impairment losses on property, plant and equipment | 6,231 | 4,449 |
| Sale of non-current assets held for sale | 16,647 | – |
| Rental income from investment properties | 3,712 | 3,940 |
| Exchange rate gains | 1,363 | 1,890 |
| Reversal of provisions | 3,405 | 2,544 |
| Rental income | 1,060 | 730 |
| Disposal of fixed assets | 2,398 | 570 |
| Reversal of loss allowances for expected losses | 356 | 206 |
| Other income | 5,986 | 1,661 |
| | **47,081** | **29,072** |

The sale of non-current assets held for sale concerns the commercial property in Fulda. The gain from the sale and leaseback transaction concerns the transferred rights and consists of the purchase price less guarantees assumed, disposed assets, recognised right of use assets and recognised lease liability.

The reversal of impairment losses on property, plant and equipment relates to an impairment loss in the engineered product segment recognised in 2019. Due to the extensive restructuring in this segment, the conditions that led to the impairment permanently changed.

The insurance compensation results from the fire damage at our sites in Heinsdorfergrund, Germany, and in the USA (both in the surface technologies segment).

## 29. COST OF MATERIALS

| in € thousands | 2021 | 2020 |
|---|---|---|
| Raw materials and supplies | 166,289 | 134,084 |
| Purchased services | 26,963 | 24,785 |
| | **193,252** | **158,869** |

## 30. PERSONNEL EXPENSES

| in € thousands | 2021 | 2020[1] |
|---|---|---|
| Wages and salaries | 72,214 | 74,925 |
| Social security contributions and expenses for pension schemes | 14,817 | 15,940 |
| | **87,031** | **90,865** |

[1] The previous year's personnel expenses are adjusted due to adjustments in the it/services segment.

Social security contributions and expenses for pension schemes include expenses for statutory pension insurance in the amount of €3,158 thousand (previous year: €3,311 thousand) and for defined contribution plans of €525 thousand (previous year: €472 thousand). Personnel expenses contain government grants in the amount of €527 thousand (previous year: €671 thousand).

On average, the Group employed:

| | 2021 | 2020 |
|---|---|---|
| Blue collar workers | 1,839 | 1,877 |
| White collar employees | 819 | 816 |
| | **2,658** | **2,693** |
| Trainees | 42 | 43 |
| | **2,700** | **2,736** |

## 31. DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES

| in € thousands | 2021 | 2020 |
|---|---|---|
| Intangible assets | 3,803 | 4,197 |
| Property, plant and equipment | 21,272 | 25,555 |
| Investment properties | 76 | 208 |
| | **25,151** | **29,960** |

Depreciation and impairments of property, plant and equipment included impairments of €2,202 thousand in the previous year.

## 32. OTHER OPERATING EXPENSES

| in € thousands | 2021 | 2020[1] |
|---|---|---|
| Maintenance | 14,251 | 10,485 |
| Legal and consulting costs | 12,200 | 11,283 |
| Outgoing freight | 7,544 | 6,180 |
| Packaging material | 3,749 | 2,702 |
| Insurance | 2,532 | 2,241 |
| Currency exchange losses | 1,810 | 1,943 |
| Complaints and guarantees | 1,641 | 2,684 |
| Commissions | 1,339 | 1,053 |
| Other taxes | 1,278 | 951 |
| Additions to loss allowances for expected losses | 1,198 | 537 |
| Expenses for investment properties | 1,002 | 1,645 |
| Rent and leasing | 740 | 339 |
| Losses from the disposal of fixed assets | 320 | 365 |
| Other expenses | 13,064 | 12,753 |
| | **62,668** | **55,161** |

[1] The prior-year other operating expenses are changed due to adjustments in the it/services segment.

Other expenses include a variety of amounts related to operating, administrative and sales activities.

## 33. INTEREST RESULT

| in € thousands | 2021 | 2020 |
|---|---|---|
| **Interest income** | | |
| Third parties | 46 | 73 |
| Equity investments | – | 57 |
| Other | 15 | 38 |
| | **61** | **168** |
| **Interest expense** | | |
| Third parties | –1,842 | –2,825 |
| Compounding of interest on pension obligations | –158 | –167 |
| Leasing | –398 | –400 |
| Other | –193 | –314 |
| | **–2,591** | **–3,706** |
| **Interest result** | **–2,530** | **–3,538** |

## 34. OTHER FINANCIAL RESULT

| in € thousands | 2021 | 2020 |
|---|---|---|
| Currency exchange losses from financing activities | –103 | –4,022 |
| Income from the disposal of shareholdings | – | 100 |
| Income from non-consolidated affiliated companies | 426 | – |
| Other financial result | –927 | – |
| | **–604** | **–3,922** |

The income from the disposal of shareholdings recognised in the previous year results from the sale of the at-equity participation in Safe-Box Self Storage Mönchengladbach GmbH, Mönchengladbach, Germany. The other financial result item largely concerns the subsequent measurement of the other liability from the put option for the acquisition of the remaining 22% of AerO Holding B.V., Tilburg/Netherlands.

The income from non-consolidated affiliated companies of €426 thousand (previous year: €0 thousand) comprises a dividend payout.

## 35. INCOME TAXES

| in € thousands | 2021 | 2020 |
|---|---|---|
| Current income taxes | –7,118 | –1,937 |
| Deferred taxes – temporary valuation differences | –1,098 | 2,148 |
| Deferred taxes – tax loss carry-forwards | 1,576 | –330 |
| | **–6,640** | **–119** |

Deferred tax assets and liabilities are calculated using a tax rate of 30% for German companies. In addition to the corporation tax rate, this includes the solidarity surcharge on corporation tax of 5.5% and the weighted tax rate for commercial income.

The calculation of the actual taxes for the respective financial year was made on the basis of the tax rates applicable for the assessment period.

For foreign subsidiaries, the applicable or anticipated income tax rates of the respective country are used. They are between 9% and 38% (previous year: 9% and 38%).

The tax expense for the financial year can be reconciled with the consolidated result as follows:

| in € thousands | 2021 | 2020 |
|---|---|---|
| Earnings from continuing operations before income taxes (previous year: Consolidated annual result before income taxes) | 28,292 | –3,279 |
| KAP Group income tax rate | 30% | 30% |
| **Expected income tax claim** | **–8,488** | **984** |
| Variance due to different tax rates | 999 | –359 |
| Tax reductions (+) due to tax-exempt income | 1,030 | 253 |
| Tax increases (–) due to non-tax-deductible expenses | –2,984 | –2,307 |
| Income taxes from previous years | –442 | 396 |
| Change in loss allowance for deferred tax assets | 2,503 | 972 |
| Other effects | 741 | –58 |
| **Income taxes according to the statement of income** | **–6,640** | **–119** |
| **Effective tax rate** | **23.5%** | **–3.6%** |

Due to actuarial gains and losses being recognised directly in other comprehensive income, deferred taxes in the amount of €191 thousand (previous year: €39 thousand) were also recognised directly in equity under revenue reserves.

## 36. SHARE OF THE RESULT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

The item relates to the shareholders of various subsidiaries other than KAP AG. The share of the result contains the compensation obligation from a profit and loss transfer agreement.

## 37. EARNINGS PER SHARE

Earnings per share is calculated as the consolidated annual result attributable to KAP AG shareholders divided by the weighted average number of the shares outstanding during the year under review.

| | 2021 | 2020 |
|---|---|---|
| Consolidated annual result of KAP AG shareholders (in € thousands) | 39,843 | –2,961 |
| Weighted average shares (in thousands) | 7,768 | 7,760 |
| **Earnings per share (in EUR)** | | |
| – of which from continuing operations | 2.79 | –0.56 |
| – of which from discontinued operations | 2.35 | 0.21 |
| | **5.14** | **–0.35** |

There were no effects resulting in the dilution of earnings per share in the reporting year or the previous year.

# OTHER DISCLOSURES

## 38. EXPENSES FOR RESEARCH AND DEVELOPMENT

Expenses for research and development in the reporting year amounted to €1,867 thousand (previous year: €1,605 thousand).

## 39. CONTINGENT ASSETS AND LIABILITIES

A contingent asset arises from possible reimbursement payments by the insurer for damage caused by the fire at the site in Spartanburg, South Carolina, USA, in October 2020.

A contingent liability arises from ongoing tax proceedings at our subsidiary MEHLER ENGINEERED PRODUCTS INDIA PRIVATE LIMITED, Bangalore/India. The local tax authorities are currently processing the information and documents we have provided.

A contingent asset arises from the previously unpaid purchase price for the commercial property in Fulda in the amount of €7 million, which depends on a condition that has not yet occurred.

## 40. CONTINGENT LIABILITIES

The following contingent liabilities could in future lead to an outflow of resources associated with economic benefits. They are valued at nominal value.

| in € thousands | 2021 | 2020 |
|---|---|---|
| Guarantees | 879 | – |
| Warranties | – | 74 |
| Collateral | – | – |
| **Total** | **879** | **74** |

## 41. SONSTIGE FINANZIELLE VERPFLICHTUNGEN

| in € thousands | 2021 | 2020 |
|---|---|---|
| Intangible assets | 46 | 6 |
| Property, plant and equipment | 9,097 | 3,181 |
| Investment properties | 590 | 639 |
| Obligations from non-cancellable leases | – | 721 |
| Obligation from liquidity commitments | – | 10 |
| **Total** | **9,733** | **4,557** |

The other financial obligations in connection with fixed assets are the obligations from binding orders. The sharp rise particularly results from the planned expansion of our site in Hessisch Lichtenau in the engineered products segment.

## 42. FINANCIAL INSTRUMENTS

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not contain any information on the fair value for financial assets and financial liabilities that have not been measured at fair value when the carrying amount is a reasonable approximation of the fair value. Trade receivables and other receivables and trade payables and other liabilities that are classified as held for sale are not included in the following table (see note 17). Their carrying amount is a reasonable approximation of the fair value.

| Statement of financial position item | Measurement category under IFRS 9 | Carrying amount | Fair value hierarchy level 1 | Fair value hierarchy level 2 | Fair value hierarchy level 3 | Fair value |
|---|---|---|---|---|---|---|
| in € thousands | | 31/12/2021 | | | | 31/12/2021 |
| **ASSETS** | | | | | | |
| Shares in affiliated companies | At fair value through profit or loss | – | – | – | – | – |
| Shares in participations | At fair value through profit or loss | 54 | – | – | – | 54 |
| Loans to participations | Financial assets measured at amortised cost | – | – | – | – | – |
| Other loans | Financial assets measured at amortised cost | 142 | – | – | – | 142 |
| Trade receivables | Financial assets measured at amortised cost | 38,435 | – | – | – | 38,435 |
| Other receivables and assets | Financial assets measured at amortised cost | 8,391 | – | – | – | 8,391 |
| Cash and cash equivalents | | 17,421 | – | – | – | 17,421 |
| **EQUITY AND LIABILITIES** | | | | | | |
| Financial liabilities | Financial liabilities measured at amortised cost | 69,773 | – | – | – | 69,773 |
| Other non-current liabilities | Financial liabilities measured at amortised cost | – | – | – | – | – |
| Trade payables | Financial liabilities measured at amortised cost | 24,547 | – | – | – | 24,547 |
| Other liabilities | Financial liabilities measured at amortised cost | 10,249 | – | – | – | 10,249 |

| Statement of financial position item | Measurement category under IFRS 9 | Carrying amount | Fair value hierarchy level 1 | Fair value hierarchy level 2 | Fair value hierarchy level 3 | Fair value |
|---|---|---|---|---|---|---|
| in € thousands | | 31/12/2020 | | | | 31/12/2020 |
| **ASSETS** | | | | | | |
| Shares in affiliated companies | At fair value through profit or loss | 28 | – | – | – | 28 |
| Shares in participations | At fair value through profit or loss | 50 | – | – | – | 50 |
| Loans to participations | Financial assets measured at amortised cost | – | – | – | – | – |
| Other loans | Financial assets measured at amortised cost | 152 | – | – | – | 152 |
| Trade receivables | Financial assets measured at amortised cost | 43,347 | – | – | – | 43,347 |
| Other receivables and assets | Financial assets measured at amortised cost | 8,862 | – | – | – | 8,862 |
| Cash and cash equivalents | | 15,694 | – | – | – | 15,694 |
| **EQUITY AND LIABILITIES** | | | | | | |
| Financial liabilities | Financial liabilities measured at amortised cost | 70,548 | – | – | – | 70,548 |
| Other non-current liabilities | Financial liabilities measured at amortised cost | – | – | – | – | – |
| Trade payables | Financial liabilities measured at amortised cost | 18,858 | – | – | – | 18,858 |
| Other liabilities | Financial liabilities measured at amortised cost | 6,718 | – | – | – | 6,718 |

Fair value hierarchy 1: Fair values were determined on the basis of quoted, unadjusted prices in active markets for these or identical assets and liabilities.

Fair value hierarchy 2: Fair values were determined on the basis of parameters for which either directly or indirectly derived quoted prices are available on an active market.

Fair value hierarchy 3: Fair values were determined on the basis of parameters for which no observable market data was available.

The carrying amounts represent reasonable approximations of the fair values.

**Gains and losses on financial instruments**

Net gains or losses and total interest income and expenses for financial assets and financial liabilities that were not measured at fair value through profit or loss can be allocated to the various categories of financial instruments as follows:

| in € thousands | 2021 | 2020 |
|---|---|---|
| **Financial assets and financial liabilities measured at amortised cost** | | |
| Interest income | 47 | 130 |
| Impairments (–)/reversals | –898 | –506 |
| | | |
| **Financial liabilities** | | |
| Interest expenses | 2,237 | 3,225 |
| Exchange rate gains and losses (–) from financing activities | –103 | –4,038 |

Interest income from financial assets measured at amortised cost is calculated using the effective interest rate on the gross carrying amount of the financial asset. For assets whose creditworthiness is impaired, the effective interest rate is subsequently applied to the amortised cost of the financial asset (after deducting the loss allowance).

**Credit and default risk**

The amount of the maximum risk exposure for financial assets on the reporting date is equal to the amounts recognised in the statement of financial position if the counterparties cannot meet their payment obligations. Cash and cash equivalents are also subject to the impairment rules of IFRS 9, but no impairment was identified.

Credit information and references are obtained to minimise the risk of default. The Group has commercial credit insurance for some trade receivables. The KAP Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses expected credit losses over lifetime for all trade receivables and other financial assets measured at amortised cost.

The expected loss rates for trade receivables are based on the payment profiles of revenues over a period of 36 months before 31 December 2021 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on external market parameters, internal factors and specific information affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as of 31 December 2021 was determined as follows for trade receivables and contract assets:

**31/12/2021**

| in € thousands | Up to 3 months | 3 to 6 months | 6 to 9 months | More than 9 months | Total |
|---|---|---|---|---|---|
| Expected loss rate | 0–25% | 0–40% | 0–65% | 0–100% | |
| Gross carrying amount of trade receivables | 33,990 | 6,313 | 80 | 438 | **40,821** |
| Loss allowances | 1,704 | 262 | 29 | 391 | **2,386** |

**01.01.2021[1]**

| in € thousands | Up to 3 months | 3 to 6 months | 6 to 9 months | More than 9 months | Total |
|---|---|---|---|---|---|
| Expected loss rate | 0–25% | 0–40% | 0–65% | 0–100% | |
| Gross carrying amount of trade receivables | 45,123 | 202 | 37 | 383 | **45,745** |
| Loss allowances | 1,870 | 127 | 18 | 383 | **2,398** |

[1] Including discontinued operations.

**Liquidity risk**

Solvency is ensured at all times through liquidity planning, a cash reserve and confirmed credit lines. The cash-pooling system ensures that the operating units are supplied with sufficient liquidity at all times. It is managed centrally directly by KAP AG. Diversification with respect to lenders reduces dependency on individual lenders.

The maturity structure of the contractual, non-discounted and expected cash flows of the financial liabilities is as follows:

**31/12/2021**

| in € thousands | Remaining maturity of up to 1 year | Remaining maturity of more than 1 to 5 years | Remaining maturity of more than 5 years | Total |
|---|---|---|---|---|
| Banks | 40,705 | 6,730 | – | 47,435 |
| Leasing | 2,578 | 5,826 | 14,120 | 22,524 |
| Third parties | 14 | – | – | 14 |
| payables | 24,547 | – | – | 24,547 |
| Other liabilities | 11,339 | – | – | 11,339 |
| | **47,028** | **34,166** | **24,465** | **105,659** |

**31/12/2020**

| in € thousands | Remaining maturity of up to 1 year | Remaining maturity of more than 1 to 5 years | Remaining maturity of more than 5 years | Total |
|---|---|---|---|---|
| Banks | 8,980 | 47,487 | 370 | 56,837 |
| Leasing | 1,779 | 4,051 | 8,107 | 13,937 |
| Third parties | 746 | – | 8 | 754 |
| payables | 18,858 | – | – | 18,858 |
| Other liabilities | 6,718 | – | – | 6,718 |
| | **37,382** | **51,538** | **8,485** | **97,405** |

### Market risks

The main market risks to which the KAP Group is exposed arise from changes in exchange rates, interest rates and prices of raw materials.

Hedging against these risks is generally sought by means of closed positions in which values or cash flows from non-derivative financial instruments match each other. To further reduce the risk, forward transactions are concluded in the form of swaps when required.

### Currency risk

For KAP AG as an international group, foreign exchange risks arise on various sales and procurement markets from the perspective of the respective national companies. In addition, there are occasionally risks associated with foreign companies' financing activities with KAP AG. We consider these risks to be manageable compared to the costs incurred in concluding hedges and therefore largely do not hedge against exchange rate fluctuations.

Key foreign currency positions as of 31 December 2021:

| | US dollar | | British pound | | Russian rouble | |
|---|---|---|---|---|---|---|
| in thousands | USD | EUR | GBP | EUR | RUB | EUR |
| **ASSETS** | | | | | | |
| Trade receivables | 9,673 | 8,536 | 163 | 194 | 142 | 49 |
| Other assets | 740 | 691 | – | – | 571 | 197 |
| Cash and cash equivalents | 3,543 | 3,142 | 3 | 4 | 195 | 67 |
| **Total** | **13,956** | **12,369** | **166** | **198** | **908** | **313** |
| | | | | | | |
| **EQUITY AND LIABILITIES** | | | | | | |
| Trade payables | 4,778 | 4,221 | – | – | 46 | 16 |
| Financial liabilities | 48,805 | 43,114 | – | – | – | – |
| **Total** | **53,583** | **47,335** | **–** | **–** | **46** | **16** |
| | | | | | | |
| **Revenue** | **38,762** | **32,801** | **–** | **–** | **1,040** | **347** |

Key foreign currency positions as of 31 December 2020:

| | US dollar | | British pound | | Russian rouble | |
|---|---|---|---|---|---|---|
| in thousands | USD | EUR | GBP | EUR | RUB | EUR |
| **ASSETS** | | | | | | |
| Trade receivables | 6,130 | 5,264 | 192 | 212 | – | – |
| Other assets | 3,313 | 2,699 | – | – | – | – |
| Cash and cash equivalents | 5,640 | 4,595 | 10 | 11 | 408 | 4 |
| **Total** | **15,083** | **12,558** | **202** | **223** | **408** | **4** |
| | | | | | | |
| **EQUITY AND LIABILITIES** | | | | | | |
| Trade payables | 866 | 719 | 6 | 6 | – | – |
| Financial liabilities | 13 | 10 | – | – | – | – |
| **Total** | **879** | **729** | **6** | **6** | **–** | **–** |
| | | | | | | |
| **Revenue** | **12,494** | **12,178** | **2,314** | **2,631** | **355** | **4** |

Our foreign subsidiaries also carry out transactions in euros. These transactions may lead to corresponding exchange rate gains or losses in the respective local financial statements.

**Risk concentration**

The concentration of risks can result from dependence on a few major customers. A risk concentration results when one customer accounts for 10% or more of the Group's revenue.

In the 2021 financial year, more than 10% of the engineered products segment's revenue was attributable to one (previous year: one) customer.

**Interest rate risk**

Interest rate risks arise when variable-rate loans are taken out. If necessary, we hedge against the risk of rising interest rates through the acquisition of payer swaps.

Financing in Germany is principally carried out via a syndicated loan with a term of five years. The interest rate depends on Euribor, the net debt to EBITDA ratio, how much of the credit line has been drawn down and the nature of its use. Variable-interest working capital lines are in place at various foreign sites. The table below shows the amount by which interest expense would increase or decrease (–) in the event of a change in the interest rate level:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| in € thousands | Increase of 0.5 percentage points | Decrease of 1.0 percentage points | Increase of 0.5 percentage points | Decrease of 1.0 percentage points |
| Interest expense | 47 | –95 | 279 | –559 |

## 43. EVENTS AFTER THE BALANCE SHEET DATE

The contract to purchase 100% of the shares in Haogenplast Ltd., Haogen/Israel, was signed on 29 December 2021. The shares were acquired with effect as of 1 January 2022. Haogenplast is a leading provider of high-quality plastic products with its registered office in Israel. The company primarily manufactures films for applications in the construction sector, e.g. for swimming pools, window laminates and technologically high-quality weatherproof roofing.

The acquired assets and liabilities of the company were as follows as of the acquisition date of 1 January 2022:

| in € thousands | Carrying amounts before purchase price allocation | Adjustment | Preliminary purchase price allocation |
|---|---|---|---|
| **Non-current assets** | – | – | – |
| Intangible assets | – | 8,390 | 8,390 |
| Property, plant and equipment | 13,495 | 76 | 13,571 |
| Deferred tax assets | – | – | – |
| | **13,495** | **8,466** | **21,961** |
| **Current assets** | | | |
| Inventories | 15,347 | 539 | 15,886 |
| Trade receivables | 7,582 | – | 7,582 |
| Other receivables and assets | 1,728 | – | 1,728 |
| Cash and cash equivalents | 1,098 | – | 1,098 |
| | **25,755** | **539** | **26,294** |
| **Assets** | **39,250** | **9,004** | **48,254** |
| | | | |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 1,216 | 1,413 | 2,629 |
| Financial liabilities | 2,408 | – | 2,408 |
| Pension obligations | 36 | – | 36 |
| | **3,660** | **1,413** | **5,073** |
| **Current liabilities** | | | |
| Other provisions | – | – | – |
| Current financial liabilities | 9,102 | – | 9,102 |
| Trade payables | 7,208 | – | 7,208 |
| Current income taxes | – | – | – |
| Other liabilities | 3,981 | –174 | 3,807 |
| | **20,292** | **–174** | **20,118** |
| **Liabilities** | **23,952** | **1,239** | **25,191** |
| **Net assets** | **15,298** | **7,765** | **23,063** |
| Goodwill | – | 5,787 | 5,787 |
| **Purchase price of shares** | **–** | **–** | **28,851** |

Non-tax-deductible goodwill of €5,717 thousand arose from the preliminary purchase price allocation of assets and liabilities. The goodwill was allocated to the flexible films segment. It represents non-separable assets such as employees' know-how, positive earnings expectations for the future and synergies from development, sales and marketing. In the first quarter of 2022, Haogenplast Ltd. generated revenue of €13,675 thousand. The fair value of the consideration transferred is €28,851 thousand. The purchase price was paid in full in cash.

By contract dated 5 November 2021 and with effect from 1 February 2022, Präzisionsteile Dresden GmbH & Co. KG, Dresden, acquired parts of the customer base and all the tangible and intangible assets required for the manufacture and supply of certain products for these customers from PENTACON GmbH, Foto- und Feinwerktechnik, Dresden, by way of an asset deal. In addition to tangible and intangible assets, the staff employed in manufacturing these products were also transferred (17 employees in total). However, contractual relationships were not transferred. According to the definition in IFRS 3, the assets acquired in the asset deal constitute a business. The preliminary purchase price allocation revealed that a value of €1,018 thousand is attributable to the customer base and a value of €1,282 thousand is attributable to the property, plant and equipment acquired. The fair value of the consideration transferred is €2,300 thousand and was paid in cash. Revenue of €0.6 million was achieved in the first quarter with the customer base acquired.

The last part of the commercial property in Fulda was sold with the notarial contract of 5 April 2022. The transfer and the payment of the purchase price of €3.5 million are planned in May 2022.

KAP AG's existing syndicated loan agreement with a credit volume of €113 million had an original term until the end of August 2022. In April 2022, KAP AG therefore concluded a loan agreement with a credit volume of €125 million and an acquisition line subject to commitment for a further €50 million with a new syndicate of banks. The old loan agreement was superseded. The new loan agreement has similar terms and conditions to the superseded agreement and a minimum term of four years with two one-year extension options. The new contract means the KAP Group is able to finance its future organic and inorganic growth.

The war that broke out between Russia and Ukraine at the end of February 2022 could directly affect the precision components segment's production activities in Belarus. Loss of assets due to destruction cannot be ruled out here. The war may directly and indirectly lead to supply and production disruptions and loss of revenue for the KAP Group. There is a risk of higher costs, particularly for energy and raw materials; of considerable raw material bottlenecks; of supply chain disruptions at customers and suppliers; and of adverse effects as a result of sanctions restrictions. This may have a negative impact on the Group's financial performance, cash flows and financial position. The further course of the war and its consequences for the business development of KAP AG will be monitored on an ongoing basis. The estimates and assumptions known to KAP AG are taken into account and described in the forecast report.

Otherwise, no events of particular significance that are expected to have a significant influence on the financial position, cash flows or financial performance of the KAP Group or KAP AG occurred after 31 December 2021.

## 44. CONSOLIDATED STATEMENT OF CASH FLOWS

The statement of cash flows separately shows cash flows from operating activities, from investing activities and from financing activities. The effect of changes in foreign exchange rates, consolidation group and valuation-related changes in cash and cash equivalents is generally eliminated and reported separately.

Cash and cash equivalents comprise the cash and cash equivalents reported in the consolidated statement of financial position. The cash flow from operating activities is determined using the indirect method. The direct method is used for the presentation of cash flows from investing activities and financing activities.

Cash and cash equivalents decreased by €199 thousand (previous year: decreased by €211 thousand) as a result of exchange rate changes. Cash flow from operating activities comprises:

| in € thousands | 2021 | 2020 |
|---|---|---|
| **Interest** | | |
| Interest paid (–) | –2,413 | –3,576 |
| Interest received | 60 | 631 |
| | **–2,353** | **–2,945** |
| **Income taxes** | | |
| Income taxes paid (–) | –6,039 | –4,754 |
| Income taxes refunded | 1,098 | 2,436 |
| | **–4,941** | **–2,318** |

The change in liabilities from financing activities was as follows:

| | | | Non-cash changes | | |
|---|---|---|---|---|---|
| in € thousands | 01/01/2021 | Net changes in cash | Exchange rate changes | Other changes | 31/12/2021 |
| Banks | 55,857 | –8,639 | 18 | – | 47,236 |
| Leasing | 13,968 | 8,579 | 8 | –31 | 22,524 |
| Other | 754 | –740 | – | – | 14 |
| | **70,579** | **–800** | **26** | **–31** | **69,776** |

| | | | Non-cash changes | | |
|---|---|---|---|---|---|
| in € thousands | 01/01/2020 | Net changes in cash | Exchange rate changes | Other changes | 31/12/2020 |
| Banks | 78,060 | –22,213 | 10 | – | 55,857 |
| Leasing | 15,346 | –1,391 | 13 | – | 13,968 |
| Other | 667 | 93 | – | – | 754 |
| | **94,073** | **–23,511** | **23** | **–** | **70,579** |

## 45. SEGMENT REPORTING

The segment reporting is based on the information reported to the Management Board as the chief operating decision-maker.

Due to the existing internal financial reporting in the KAP Group, the report format is organised by business segment.

The portfolio is divided into the following more detailed segments to better define the business activities:
– engineered products
– flexible films
– precision components
– surface technologies

**Engineered products**, **flexible films**, **precision components** and **surface technologies** each represent specific product groups.

The **engineered products** segment develops, produces and markets a broad range of special products made from technical threads and fabrics that are used, for example, in the automotive supplier industry, as reinforcing supports for the tyre industry, for roof-sarking membranes or reinforced plaster or in road construction.

The **flexible films** segment specialises in the coating and packaging of fleece, fabrics, films and paper used as roof-sarking membranes and in agriculture.

The **precision components** segment concentrates on the manufacture of complex metal, milled and plastic parts.

The **surface technologies** segment specialises in surface coating and finishing.

In addition to KAP AG, the holding companies KAP Textile Holdings SA Limited, Mehler Aktiengesellschaft, KAP IT Services GmbH, KAP Beteiligungs Inc., Mehler Grundstücksverwaltungs GmbH and GbR MEHLER AG/DAUN & Cie. AG are allocated to the holding company column.

The reconciliation of expenses and income to the corresponding Group figures is shown in the "Segment reporting by business area" table in the notes to the consolidated financial statements.

The accounting policies used match those of the consolidated financial statements.

Intragroup revenue is transacted at normal commercial prices and generally corresponds to prices used in third-party sales ("at-arm's-length principle").

In the **engineered products** segment, revenue with one customer amounted to €22,200 thousand (previous year: €30,491 thousand). The segment includes reversals of impairments of property, plant and equipment of €6,231 thousand (previous year: reversals of impairments of €4,448 thousand). The reversals of impairments became necessary because the conditions that led to the impairments in 2019 permanently changed.

The segment result is defined as earnings before interest, taxes, depreciation and amortisation and the result from divested assets and liabilities. The segment EBITDA corresponds to the EBITDA of the Group at Group level.

Working capital is defined as inventories plus trade receivables less trade payables.

The reconciliation to EBITDA includes the elimination of inter-company results, receivables and liabilities and also expenses and income that cannot be allocated to the business segments.

In the previous year, impairments of €2,202 thousand were recognised in the **surface technologies** segment due to fires at the sites in Heinsdorfergrund (Germany) and Spartanburg (USA).

**Revenue, non-current assets and investments**

Segment revenue with external customers was allocated on the basis of the geographical locations of the customers. The total carrying amount of non-current assets and investments was determined according to the geographical location of the respective unit. Investments include the acquisition cost of intangible assets and property, plant and equipment.

## SEGMENT REPORTING BY BUSINESS AREA FROM 1 JANUARY TO 31 DECEMBER 2021

| | engineered products | | flexible films | | surface technologies | | precision components | |
|---|---|---|---|---|---|---|---|---|
| **in € thousands** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| **Revenue** | **118,041** | **126,985** | **128,354** | **100,150** | **57,593** | **53,537** | **38,844** | **39,631** |
| Segment result/EBITDA | 15,023 | 2,706 | 18,061 | 14,798 | 10,999 | 18,468 | 2,171 | 1,748 |
| Depreciation, amortisation and impairments | 4,320 | 7,577 | 4,105 | 3,322 | 12,176 | 14,208 | 3,833 | 4,041 |
| Operating result/EBIT | 10,703 | –4,871 | 13,956 | 11,476 | –1,177 | 4,260 | –1,662 | –2,293 |
| Investments[1] | 5,409 | 1,779 | 4,135 | 2,102 | 15,438 | 14,628 | 6,504 | 2,282 |
| Working capital | 35,176 | 33,067 | 24,204 | 20,749 | 4,358 | 2,302 | 12,147 | 12,488 |
| Employees as of 31 December | 815 | 870 | 375 | 321 | 750 | 769 | 636 | 617 |

| | Holding[2] | | Consolidation[3] | | Earnings from continuing operations | |
|---|---|---|---|---|---|---|
| **in € thousands** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| **Revenue** | **4,288** | **4** | **–1,503** | **2,355** | **345,617** | **322,662** |
| Segment result/EBITDA | 12,933 | –6,350 | –2,610 | 1,820 | 56,577 | 33,191 |
| Depreciation, amortisation and impairments | 717 | 848 | – | –36 | 25,151 | 29,960 |
| Operating result/EBIT | 12,216 | –7,198 | –2,610 | 1,856 | 31,426 | 3,231 |
| Investments[1] | 111 | 248 | – | 382 | 31,597 | 21,421 |
| Working capital | –2,400 | –1,513 | – | 226 | 73,485 | 67,319 |
| Employees as of 31 December | 56 | 37 | – | – | 2,632 | 2,614 |

[1] Relates to intangible assets and property, plant and equipment excluding leasing.
[2] This includes all companies that are not allocated to a segment. The energy supply and data centre businesses, which were separated from the it/services segment and sold within the Group, are also reported here.
[3] In addition to consolidation items, consolidation also relates to corrections in connection with the discontinued it/services business. The previous year was adjusted here because the data centre business was not sold at the same time.

# SEGMENT REPORTING BY GEOGRAPHIC AREA VOM 1. JANUAR BIS 31. DEZEMBER 2021

| | Revenue with third parties [1] | | Segment assets [2] | | Investments [3] | |
|---|---|---|---|---|---|---|
| in € thousands | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Germany | 124,173 | 118,867 | 171,783 | 182,309 | 16,593 | 9,483 |
| Rest of Europe | 155,409 | 140,827 | 97,159 | 91,113 | 5,481 | 12,462 |
| North/South America | 33,644 | 32,340 | 33,969 | 15,181 | 7,779 | 99 |
| Asia | 31,829 | 29,638 | 31,395 | 23,369 | 1,743 | 432 |
| Other countries | 562 | 990 | 119 | – | – | – |
| Consolidation | – | – | – | –2,412 | – | –1,055 |
| **Continuing operations** | **345,617** | **322,662** | **334,426** | **309,559** | **31,597** | **21,421** |

As the figures are presented in € thousands, the numbers may not add up due to rounding.
[1] Segment revenue with external customers by geographical area.
[2] Total carrying amount of the production sites.
[3] Investments in intangible assets and property, plant and equipment.

# ADDITIONAL INFORMATION ON SEGMENT REPORTING

| in € thousands | 2021 | 2020[1] |
|---|---|---|
| **Segment result** | **56,577** | **33,191** |
| Depreciation and amortisation of intangible assets, property, plant and equipment and investment property | 25,151 | 29,960 |
| **Operating result** | **31,426** | **3,231** |
| Interest result | –2,530 | –3,538 |
| Other financial result | –604 | –3,922 |
| **Financial result** | **–3,134** | **–7,460** |
| **Result before income taxes** | **28,292** | **–4,229** |
| Income taxes | –6,640 | –119 |
| **Earnings after income taxes** | **21,652** | **–4,348** |
| Earnings from discontinued operations after taxes | 18,205 | 1,664 |
| **Consolidated annual result after taxes** | **39,857** | **–2,684** |
| Result share of non-controlling interests | –14 | –277 |
| **Consolidated annual result of KAP AG shareholders** | **39,843** | **–2,961** |

[1] The income statement of the previous year is altered due to adjustments in the it/services segment.

## 46. RELATED PARTY TRANSACTIONS

Companies that directly or indirectly have control over or are controlled by KAP AG are regarded as related parties unless these companies are included in the consolidated financial statements of KAP AG on the reporting date.

Furthermore, this term includes associates and joint ventures that can be significantly influenced or are jointly controlled.

The relationships with these companies are shown in the list of the investments of KAP AG under note 48.

FM-Verwaltungsgesellschaft mbH, Stadtallendorf, Germany, notified us in writing on 1 September 2014 in accordance with section 21 (1) of the German Securities Trading Act (WpHG) that its share of the voting rights in our Company exceeded the 25% threshold on 1 September 2014 and since that date has accounted for 29.89% (1,980,000 voting rights).

Mr Rüdiger Heiche and Mr Gunter Heiche, Schwaigern, Germany, notified us in writing on 12 September 2019 in accordance with section 33 (1) WpHG that their shares of the voting rights in our Company exceeded the threshold of 3% on 10 September 2019 and amount to 4.01%.

Mr William Elias Conway Jr, Mr Daniel Anthony D'Aniello and Mr David Mark Rubenstein notified us in writing in January 2020 that their total share of the voting rights in our Company on 1 January 2020 pursuant to section 33 (1) WpHG now amounts to 45.51% of the voting rights and 25.51% of the instruments within the meaning of section 38 (1) 2 WpHG (right of first refusal in shareholder agreement (subject to condition precedent)). Of the voting rights, 45.51% (3,531,719 voting rights) are attributable to them pursuant to section 33 (1) in conjunction with section 34 (1) 1 WpHG via Project Diamant Bidco GmbH, Frankfurt am Main, Germany.

The parent company of KAP AG is Project Diamant Bidco GmbH (formerly Project Diamant Bidco AG), with registered office in Frankfurt am Main, Germany.

Project Diamant Bidco GmbH is included in the consolidated financial statements of CSP Diamant Luxco 1 Sàrl, which is registered in the Luxembourg commercial register under number B 210.172. This constitutes the largest group of companies. The consolidated financial statements are published under CSP Diamant Luxco 1 Sàrl, Luxembourg. KAP AG prepares the consolidated financial statements for the smallest group of companies.

KAP AG's, Edelzeller Strasse 44, 36043 Fulda, Germany, consolidated financial statements are published in the Federal Gazette under number HRB 5859 of the Fulda District Court.

Natural persons are considered to be related parties if they belong to the Management Board or the Supervisory Board of KAP AG or are close family members of such persons. This also applies to persons who control, jointly control or exert a significant influence over other companies within the KAP Group, or who hold a significant voting interest, directly or indirectly, in such companies. Information on the remuneration of the Management Board and Supervisory Board can be found in note 47.

The mandates of the members of the Management Board and the other members of the Supervisory Board of KAP AG are listed under note 47.

The volumes of the transactions carried out during the financial year with related companies and the balances still outstanding on the reporting date break down as follows:

| in € thousands | 2021 | 2020 |
|---|---|---|
| **PARENT COMPANY** | | |
| **Goods and services provided and received** | | |
| Other expenses | 995 | 891 |
| **Receivables and liabilities** | | |
| Trade payables | 70 | – |
| | | |
| **INVESTEES** | | |
| **Goods and services provided and received** | | |
| Interest income from loans granted | – | 57 |
| | | |
| **OTHER RELATED COMPANIES** | | |
| **Goods and services provided and received** | | |
| Other expenses | 767 | 83 |
| | | |
| **Receivables and liabilities** | | |
| Trade payables | 748 | – |

The Management Board's remuneration is paid via Project Diamant Administration GmbH, and this remuneration is then invoiced to KAP AG. Mr Roy Bachmann is a member of the Supervisory Board of RB Capital Ltd., Guernsey. RB Capital Ltd., Guernsey, invoiced a total of €772 thousand for brokerage and consulting services.

## 47. MANAGEMENT BOARD AND SUPERVISORY BOARD

The following were appointed members of the Management Board in the reporting period:

**Eckehard Forberich, Spokesman of the Management Board**
(since 1 March 2020)
Diplom-Kaufmann (certified business administrator), Frankfurt, Germany
*No other mandates*

**Marten Julius, Chief Financial Officer (CFO)**
(since 1 October 2020)
Diplom-Kaufmann (certified business administrator), Nuremberg, Germany
*No other mandates*

The following were appointed members of the Supervisory Board in the reporting period:

**Christian Schmitz, Chairman**
Managing Director of The Carlyle Group, London, United Kingdom

*Other mandates:*
CANAVERAL HOLDCO LIMITED, London, United Kingdom [2]
Mehler AG, Fulda, Germany [1]
Trans Maldivian Airways Pvt Ltd., Maldives [2]

**Roy Bachmann**
Diplom-Kaufmann (certified business administrator), Managing Director at RB Capital Partners LLP, London, United Kingdom
*No other mandates*

**Joachim Coers**
Diplom-Volkswirt (certified economist), Nonnenhorn, Germany

*Other mandates:*
Cherry AG, Munich, Germany [1]
ensian group GmbH, Leutkirch im Allgäu, Germany [2]

**Viktor Rehart**
(since 13 October 2021)
Investment professional, Senior Associate at The Carlyle Group, London, United Kingdom

*Other mandates:*
Trans Maldivian Airways Pvt Ltd., Maldives [2]

**Uwe Stahmer, Deputy Chairman**
Business administrator, Bad Zwischenahn, Germany
Management consultant
*No other mandates*

**Christoph Schoeller**
Business administrator, Hamburg, Germany
*No other mandates*

[1] Membership of domestic supervisory boards required by law.
[2] Membership of similar domestic and foreign supervisory bodies.

The total remuneration granted (excluding pension commitments) for the Management Board of KAP AG is calculated from the sum of

– the basic remuneration in 2021,

– the annual bonus for 2021 to be paid in 2022 at the value on the reporting date,

– the share-based remuneration programme (see note 19) and

– the taxable non-monetary benefits and other fringe benefits in 2021.

It is paid via Project Diamant Administration GmbH and invoiced to KAP AG. In the 2021 financial year, €1,116 thousand (previous year: €1,198 thousand) is accounted for by both the basic remuneration including fringe benefits and the annual bonus for 2021.

Additional information on remuneration can be found in the remuneration report.

AP AG itself has no employees.

Pension obligations include pension obligations for former members of the Management Board amounting to €1,205 thousand (previous year: €1,281 thousand).

The members of the Supervisory Board received total remuneration of €127 thousand (previous year: €117 thousand).

## 48. INVESTMENTS OF KAP AG IN ACCORDANCE WITH SECTION 313 (2) OF THE GERMAN COMMERCIAL CODE (HGB)

| Companies included in the consolidated financial statements | Registered office | Share in capital in % |
|---|---|---|
| Mehler Aktiengesellschaft | Fulda, Germany | 100 [1] |
| AerO Coated Fabrics B.V. | Tilburg/Netherlands | 100 |
| AerO Holding B.V. | Tilburg/Netherlands | 100 |
| CaPlast Kunststoffverarbeitungs GmbH | Nordkirchen (Capelle), Germany | 100 [1] |
| Convert Vliesveredlung GmbH | Detmold, Germany | 100 |
| Convert Vliesveredlung GmbH & Co. KG | Waldfischbach-Burgalben, Germany | 100 |
| Elbtal Verwaltungs GmbH | Coswig, Germany | 100 |
| Elbtal Plastics GmbH & Co. KG | Coswig, Germany | 100 [1] |
| GbR MEHLER AG/DAUN & Cie. AG | Stadtallendorf, Germany | 94 |
| KAP Beteiligungs Inc. | Martinsville, USA | 100 |
| KAP IT-Service GmbH | Fulda, Germany | 100 [1] |
| MEHLER ENGINEERED PRODUCTS GMBH | Fulda, Germany | 100 [1] |
| MEHLER ENGINEERED PRODUCTS INDIA PRIVATE LIMITED | Bangalore, India | 100 |
| MEHLER ENGINEERED PRODUCTS, INC. | Martinsville, USA | 100 |
| MEHLER ENGINEERED PRODUCTS s.r.o. | Jilemnice, Czech Republic | 100 |
| MEHLER ENGINEERED PRODUCTS (Suzhou) Co., Ltd. | Suzhou, China | 100 |
| Mehler Grundstücksverwaltungs GmbH | Fulda, Germany | 100 |
| NOW Contec GmbH | Detmold, Germany | 100 |
| NOW Contec GmbH & Co. KG | Waldfischbach-Burgalben, Germany | 100 |
| MEHLER PORTUGAL LDA. (formerly OLBO & MEHLER TEX PORTUGAL LDA.) | Famalicão, Portugal | 100 |
| Olbo & Mehler Tex North America, Inc. | Charlotte, USA | 100 |
| Riflex Film AB | Ronneby, Sweden | 100 |
| Steinweg Kunststoffolien GmbH | Castrop-Rauxel, Germany | 75 [1] |
| Heiche Logistic GmbH | Schwaigern, Germany | 100 [1] |
| Heiche Oberflächentechnik GmbH | Schwaigern, Germany | 100 [1] |
| Heiche Polska sp. z o.o. | Stanowice, Poland | 100 |
| KAP Surface Holding GmbH | Fulda, Germany | 100 [1] |

| Companies included in the consolidated financial statements | Registered office | Share in capital in % |
|---|---|---|
| Gt Oberflächen GmbH | Heinsdorfergrund, Germany | 100[1] |
| G. und R. Heiche Beteiligungs GmbH | Schwaigern, Germany | 100 |
| Heiche Bayern GmbH | Hunderdorf, Germany | 100[1] |
| Heiche Hungary Surface Technologies Kft. | Sátoraljaújhely, Hungary | 100 |
| Heiche Oberflächentechnik Beteiligungs GmbH | Leisnig, Germany | 100 |
| Heiche Sachsen GmbH & Co. KG | Leisnig, Germany | 100[1] |
| Heiche US Surface Technologies (AL) LLC | Alabama, USA | 100 |
| Heiche US Surface Technologies (SC) Inc. | Spartanburg, USA | 100 |
| KAP Surface Technologies US Holding Inc. | Atlanta, USA | 100 |
| Metallveredlung Döbeln GmbH | Döbeln, Germany | 100[1] |
| KAP Textile Holdings SA Limited | Paarl, South Africa | 100 |
| UKW Properties (Pty.) Ltd. | Paarl, South Africa | 100 |
| KAP Precision Components GmbH | Fulda, Germany | 100[1] |
| BEBUSCH Hungaria Müanyagfeldolgozó Kft. | Oroszlány, Hungary | 100 |
| Gear Motion GmbH | Ehingen, Germany | 100[1] |
| Gear Motion Grundstücksverpachtungs GmbH & Co. KG | Ehingen, Germany | 100[1] |
| Gear Motion Grundstücksverwaltungs GmbH | Ehingen, Germany | 100 |
| Minavto OOO | Lahoysk, Belarus | 100 |
| Präzisionsteile Dresden GmbH & Co. KG | Dresden, Germany | 100[1] |
| Präzisionsteile Dresden Verwaltungsgesellschaft mbH | Dresden, Germany | 100 |

[1] Domestic companies that made use of the provisions of section 264 (3) and section 264 b of the German Commercial Code (HGB) on the exemption from the obligation to disclose annual financial statements.

| Companies not included in the consolidated financial statements | Registered office | Share in capital in % |
|---|---|---|
| Kammgarnbüro GmbH | Frankfurt am Main, Germany | 32.81 |
| KAP HoldCo LTD. | Haogen, Israel | 100.00 |
| Rags and Fabrics (Lesotho) (Pty.) Ltd. | Lesotho, South Africa | 100.00 |

## 49. CORPORATE GOVERNANCE STATEMENT

The Company has issued the corporate governance statement and published it on its website on https://www.kap.de/en/investor-relations/corporate-governance/corporate-governance-statement. This statement contains the Declaration of Conformity with the German Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act (AktG).

## 50. GROUP AUDITOR'S FEES

Total Group auditor's fees calculated for the year:

| in € thousands | 2021 | 2020 |
|---|---|---|
| Audit of financial statements | 570 | 827 |
| – of which previous year | 70 | 172 |
| Other certification services | 15 | 30 |
| Other consulting services | – | 7 |
| | **585** | **864** |

Other certification services mainly relate to audit activities in connection with financing.

## 51. RECOMMENDATION FOR THE ADOPTION OF THE ANNUAL FINANCIAL STATEMENTS AND DISTRIBUTION OF THE RETAINED EARNINGS

The Management Board proposes that the annual financial statements of KAP AG be adopted with retained earnings of €61,093,641.21 calculated in accordance with the requirements of the German Commercial Code (HGB).

In addition, it is expected to be proposed to the Annual General Meeting on 7 July 2022 that a dividend of €7,767 thousand (previous year: €13,593 thousand) be distributed from the retained earnings and that the remaining retained earnings of €53,326 thousand be carried forward. This equates to a dividend of €1.00 (previous year: €1.75) per no-par-value share. However, the Management Board will monitor developments in connection with the Russia-Ukraine war very closely and review the proposal before the Annual General Meeting.

On the basis of the resolution of the Annual General Meeting, €13,593 thousand (previous year: €0 thousand) was distributed as a dividend in the 2021 financial year. This equates to a dividend of €1.75 (previous year: €0.00) per no-par-value share.

## 52. DECLARATION BY THE MANAGEMENT BOARD

The consolidated financial statements and the combined management report of KAP AG for the 2021 financial year were approved for publication by resolution of the Management Board on 27 April 2022.

Fulda, 27 April 2022

KAP AG
Management Board

| | |
|---|---|
| Eckehard Forberich | Marten Julius |
| Spokesman of the Management Board | CFO |

# INDEPENDENT AUDITOR'S REPORT

## TO KAP AG, FULDA

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

### AUDIT OPINIONS

We have audited the consolidated financial statements of KAP AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2021, the consolidated statement of income, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2021 to December 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of KAP AG for the financial year January 1, 2021 to December 31, 2021. In accordance with German legal requirements, we have not audited the content of the components of the combined management report mentioned in the section "Other information" of our audit opinion.

In our opinion, on the basis of the knowledge obtained in the audit,

– the consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2021, and of its financial performance for the financial year from January 1, 2021 to December 31, 2021, and
– the combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of the parts of the declaration on corporate governance.

Pursuant to § 322 Abs. 3 S. 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

### BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

## KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2021 to December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

## IMPAIRMENT OF GOODWILL

**Related information in the consolidated financial statements and combined management report**
Regarding the accounting and valuation methods and the assumptions applied hereto, we refer to the "Accounting and valuation methods" in section 5 in the consolidated notes. Information on the course of business and the economic development in the segments can be found in the combined management report in the section "Economic report".

**Facts and risks of the audit**
In the consolidated financial accounts, a total of EUR 35.9 million is reported under the balance sheet item "intangible assets". At 16.7 % of non-current assets and 10.5 % of the Group's total assets, these represent a significant item in the balance sheet. As of December 31, 2021, EUR 12.3 million of this amount is allocated to "goodwill" as well as EUR 3.3 million to brand names that are not subject to scheduled amortization but to an annual impairment test.

If indications of a possible impairment of assets arise, the Group carries out a central impairment test as required. In accordance with IAS 36.90, the impairment test of the "goodwill" and brand names is carried out annually. This involves comparing the carrying amount at the level of the cash generating unit (CGU) with the recoverable amount of the respective CGU. If the carrying amount is higher than the recoverable amount, an impairment loss is recognized, which is initially allocated to goodwill and then to the other assets of the CGU.

The impairment test within the framework of IAS 36 is characterized by its complexity and several discretionary assumptions at the CGU level. This includes the expected business and earnings performance of the respective CGU for the years underlying the detailed planning period, the assumed long-term growth rates and the discount rate applied thereto.

There is a risk to the financial statements that an impairment existing on the balance sheet date was not recognized and that this results in an overstatement of assets.

**Audit procedure and findings**
We assessed the determination and composition of the carrying amount of the cash-generating units based on the criteria of IAS 36. Furthermore, we evaluated the Group's key assumptions and the calculation method with the involvement of our valuation specialists.

We evaluated the plausibility of the underlying future cash flows on the basis of past earnings and information from legal representatives regarding the future development of the respective cash-generating units. In addition, we conducted a matching of the Group's planning prepared by the Executive Board and approved by the Supervisory Board. Moreover, we also assessed the consistency of the assumptions with external market assessments as well as with peer companies. We mainly used economic reports from recognized industrial institutions as our sources.

We compared the assumptions and parameters underlying the discount rate, the market risk premium and the beta factor with our own assumptions and publicly available data.

We verified the mathematical accuracy in the valuation model used by the Group.

Finally, we assessed the notes to the consolidated financial statements for impairment of goodwill to determine whether they are appropriate.

Based on our audit procedures, we are satisfied that the assumptions made and parameters set by the Group's legal representatives regarding the book value of goodwill and non-current assets are substantiated and adequately documented.

## DISCONTINUED OPERATIONS

**Related information in the consolidated financial statements and combined management report**
Regarding the accounting and valuation methods applied and the assumptions used, we refer to section 5 "Accounting and valuation principles" and section 17 "Non-current assets held for sale and discontinued operations" in the notes to the consolidated financial statements. Furthermore, we refer to the supplementary report in section 43 of the notes to the consolidated financial statements. Information on the economic development of the discontinued operations can be found in the combined management report in the section "Economic report".

**Facts and risks to the audit**
In the consolidated financial statements of KAP AG earnings from discontinued operations amount to EUR 17.6 million.

The disclosures in the consolidated financial statements were made necessary due to the sale of the it/services segment, consisting of the it-novum Group and MEHLER Engineering und Service GmbH (excluding the electricity supply division), which was reported as a discontinued operation in the prior year's consolidated financial statements. With economic effect from 1 January 2021, MEHLER Engineering und Service GmbH and it-novum Group were sold and deconsolidated on 30 June 2021 as part of the implementation of the group's corporate strategy.

The accounting for the sale of the it/service segment is one of the most significant matters in our audit due to the complexity of the transactions and the associated significant risk of material misstatement, the uncertainties in estimates and the scope for judgement in the valuations made, as well as the overall material impact on the Group's net assets, financial position and results of operations. Risks for the financial statements arise with regard to the correct reporting in the consolidated income statement, consolidated cash flow statement and notes to the consolidated financial statements. Another risk is that the presentation of the deconsolidation in the consolidated financial statements and the determination of the result from the disposal are not appropriate.

**Audit approach and findings**
We assessed the legal and contractual basis for the sale of the shares in the companies. As the decision to sell was already made in the 2020 financial year and the segment was already presented as a discontinued operation in the previous year, the examination of the classification was already carried out as of 31 December 2020. For this purpose, the assessment of the management was understood, the significance of the segment for the Group and the procedure of KAP AG for the classification of discontinued operations were analysed.

As part of our audit, we first assessed whether the requirements for deconsolidation according to IFRS 10 are met. Subsequently, we assessed which assets and liabilities are to be taken into account within the scope of the deconsolidation. For this purpose, we assessed the contractual agreements. We then assessed whether the disposed assets and liabilities were derecognised completely and correctly and whether the gain or loss on disposal was determined and accounted for appropriately. We reconciled the determination of the purchase price with the contractual agreements. Finally, we assessed whether the disclosures required by IFRS 5 up until deconsolidation and disclosures on the disposal in the notes to the consolidated financial statements are appropriate.

Based on our audit procedures, we are satisfied that the presentation of the discontinued operations made by the legal representatives in the consolidated financial statements is substantiated and adequately documented.

## SALE AND LEASEBACK TRANSACTION

**Related information in the consolidated financial statements and combined management report**
Regarding the accounting and valuation methods applied and the assumptions used, we refer to section 5 “Accounting and valuation principles” and section 8 “Property, plant and equipment” in the notes to the consolidated financial statements. Information on the economic development of the sale and lease back transaction can be found in the combined management report in the section “Economic Report”.

**Facts and risk for the audit**
In December 2021, the Group disposed of a plot of land and the corresponding buildings at the Group's headquarters in a sale and leaseback transaction and leased back parts of the property immediately. The purchase price of the transaction was EUR 30.4 million and the transaction represents a single legal transaction. In addition, a further EUR 7.0 million is due under the condition precedent that a tenant not belonging to the KAP Group extends its previously existing lease. The buildings and space used by the Group were leased back on the basis of long-term rental agreements. The term of the leases is between five and ten years.

The transaction resulted in a capitalised right-of-use asset of EUR 1.0 million, a lease liability of EUR 3.2 million and a gain on disposal of EUR 16.7 million in the consolidated financial statements of KAP AG.

The presentation and valuation of the transaction depend on a number of discretionary assumptions. There is a risk for the consolidated financial statements that the right-of-use asset and the lease liability have not been correctly recognized and that an inappropriate operating result results from the transaction.

**Audit approach and findings**
We have assessed the legal and contractual basis for the sale of the property and the subsequent long-term lease by the Group and whether it is a sale-and-leaseback transaction by assessing the criteria for a sale under IFRS 15. We then assessed the presentation of the transaction in accordance with IFRS 16.

In determining the gain on disposal, the contractual and actual circumstances were used to assess and examine the extent to which the contingent purchase price component had to be taken into account. Due to the uncertainty associated with the occurrence of the condition, only the unconditional purchase price share was taken into account when determining the gain on disposal. The conditional purchase price share was disclosed in the notes to the consolidated financial statements as a contingent asset in accordance with IAS 37.

We compared the relevant assumptions and parameters used to determine the present value of the lease liability and the measurement of the right-of-use asset with our own assumptions and publicly available data. Relevant assumptions and parameters for the measurement of the lease liability and the right-of-use asset are the lease term, the amount and timing of the lease payments as well as the relevant incremental borrowing rate and market value of the property.

Finally, we have assessed the disclosures in the notes on the sale-and-leaseback transaction of the property as to whether they are appropriate and complete.

Based on our audit procedures, we are satisfied that the underlying assumptions made by management in the accounting and valuation of the sale-and-leaseback transaction of the property and the disclosures related to the transaction in the notes to the consolidated financial statements and the combined management report are reasonable and adequately documented.

## OTHER INFORMATION

The legal representatives are responsible for the other information. The other information comprises the following components of the combined management report that have not been audited as to their content:

– "Declaration on Corporate Governance pursuant to Sections 289f and 315d HGB" that is referred to in the combined management report

The other information also includes:

– "Non-financial Statement pursuant to Section 289b et seq. HGB and Section 315b et seq. HGB"
– confirmation of the legal representatives pursuant to § 297 (2) sentence 4 HGB regarding the consolidated financial statements and the confirmation pursuant to § 315 (1) sentence 5 HGB

– remaining parts of the annual report, except for the audited consolidated financial statements and combined management report and our opinions.

The Supervisory Board is responsible for the following other information:

– Report of the Supervisory Board for the financial year 2021

The legal representatives and the Supervisory Board are jointly responsible for the following other information:

– Remuneration Report 2021

Of the other information, the remaining parts of the Annual Report and the Report of the Supervisory Board are expected to be made available to us after the date of this note.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an [audit] opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
– otherwise appears to be materially misstated.

## RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an [audit] opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our [audit] opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## OTHER LEGAL AND REGULATORY REQUIREMENTS

**Comment on the audit of the electronic reproductions of the Consolidated Financial Statements and the Combined Management Report prepared for the purpose of disclosure in accordance with Section 317 (3a) of the German Commercial Code (HGB)**

**Audit opinion**

We have conducted a reasonable assurance review pursuant to Section 317 (3a) of the German Commercial Code (HGB) of whether the reproductions of the consolidated financial statements and the combined management report contained in the attached file 529900PL69Z32D8WH189-2021-12-31-de (9)] (MD5-Hash-value: [d0e0aaa4c230510f9b8cf76b6b79789d]) and prepared for disclosure purposes (hereinafter also referred to as "ESEF documents") comply in all material respects with the electronic reporting format ("ESEF format") requirements of Section 328 (1) HGB. In accordance with German legal requirements, this assessment extends only to the transfer of the information contained in the consolidated financial statements and the combined management report into the ESEF format and therefore neither to the information contained in these reproductions nor to any other information contained in the aforementioned file.

In our opinion, the reproductions of the consolidated financial statements and the combined management report contained in the file referred to above and prepared for disclosure purposes comply, in all material respects, with the electronic reporting format requirements of Section 328 (1) HGB. We do not express any opinion whatsoever on the information contained in these reproductions or on the other information contained in the above-mentioned file other than this opinion and our opinions on the accompanying consolidated financial statements and the combined management report for the financial year from 1 January 2021 to 31 December 2021 contained in the preceding "Report on the audit of the consolidated financial statements and the combined management report."

**Basis for our audit opinion**

We conducted our review of the reproductions of the consolidated financial statements and the combined management report contained in the above-mentioned file in accordance with Section 317 (3a) HGB and in compliance with the IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for Disclosure Purposes in Accordance with Section 317 (3a) HGB (IDW PS 410 (10/2021)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility thereunder is described further in the section entitled "Auditor's Responsibility for the Audit of the ESEF Documents." Our auditing practice has complied with the quality assurance system requirements of the IDW Quality Assurance Standard: Requirements for Quality Assurance in the Auditing Practice (IDW QS 1).

**Responsibility of the legal representatives and the Supervisory Board for the ESEF documents**

The company's legal representatives are responsible for the preparation of the ESEF documents including the electronic reproductions of the consolidated financial statements and the combined management report in accordance with Section 328 (1) sentence 4 no. 1 HGB and for the tagging of the consolidated financial statements pursuant to Section 328 (1) Sentence 4 No. 2 of the HGB.

Furthermore, the company's legal representatives are also responsible for the internal controls that they deem necessary to enable the preparation of the ESEF documents that are free from material non-compliance, whether intentional or unintentional, with the requirements of Section 328 (1) HGB regarding the electronic reporting format.

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

**Auditor's Responsibility for the Review of the ESEF Documents**

Our objective is to obtain reasonable assurance as to whether the ESEF documents are free from material non-compliance, whether due to fraud or error, with the requirements of Section 328 (1) HGB. While conducting our review, we exercise professional judgment and maintain a critical attitude. Furthermore, we

- identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, plan and perform audit procedures to address these risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.
- obtain an understanding of internal control relevant to the audit of the ESEF documents in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those controls.
- assess the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents complies with the requirements of Delegated Regulation (EU) 2019/815 as amended on the reporting date regarding the technical specification for this file.
- assess whether the ESEF documentation provides a consistent XHTML representation of the consolidated financial statements and the combined management report.
- evaluate whether the ESEF documents have been tagged using inline XBRL technology (iXBRL) in accordance with Article 4 and 6 of Delegated Regulation (EU) 2019/815 in a way that enables an appropriate and complete machine-readable XBRL copy of the XHTML copy.

**Further information pursuant to Article 10 of the EU Audit Regulation**
We were elected as group auditors by the annual general meeting on September 30, 2021. We were engaged by the Supervisory Board on December 13, 2021. We have been the group auditors of KAP AG since financial year 2019.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to group entities the following services that are disclosed in the consolidated financial statements in other services:

– Agreed-Upon procedures according to ISRS 4400 in connection with the "Compliance Certificate"; as of the calculation date December 31, 2020.

## GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Michael Schaub.

Frankfurt am Main, April 27, 2022

Mazars GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Jörg Maas
Wirtschaftsprüfer

Michael Schaub
Wirtschaftsprüfer

# RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable accounting standards for consolidated financial statements, we affirm that the consolidated financial statements give a true and fair view of the financial position, cash flows and financial performance of the Group, and the combined management report presents the business performance including the operating result and the position of the Group so that a true and fair view is presented, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year."

Fulda, 27 April 2022

KAP AG
Management Board

Eckehard Forberich
Member and Spokesman of the Management Board

Marten Julius
CFO

# CONTACT/IMPRINT

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**Note**
This annual report was published on 28 April 2022 and is also available in German and electronically as a PDF (in German and English). In cases of doubt, the German version shall prevail.

**Forward-looking statements**
This report contains forward-looking statements. These statements are based on current estimates and forecasts by the Management Board and on the information currently available to the Management Board. Such statements are subject to risks and uncertainties that are mostly difficult to assess and are generally outside the scope of KAP AG's and its subsidiaries' control. These include the future market environment and economic conditions, the behaviour of other market participants, the successful integration of new acquisitions, the realisation of anticipated synergy effects and measures taken by government agencies. Should any of these or other uncertainties and imponderables materialise, or should the assumptions on which the statements made are based prove to be inaccurate, actual results could differ materially from those expressed or implied by such statements. KAP AG does not assume any separate obligation going beyond the legal requirements to update forward-looking statements made in this report.

**Rounding**
The figures in this report have been rounded in accordance with established commercial practice. Rounding differences may thus occur, meaning that the result of adding the individual figures together does not always precisely correspond to the total specified.

www.kap.de

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