Engineering Excellence

Annual Report

2022

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 in turn benefits our segment companies, our customers and our shareholders.

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KEY FIGURES

Selected key figures

		2022	2021[1]	Change (%)
Group				
Revenue	€ millions	433.5	345.6	25.4
Normalised EBITDA	€ millions	35.9	35.0	2.6
Normalised EBITDA margin	%	8.3	10.1	–1.8pp
Consolidated profit/loss after taxes	€ millions	–1.7	39.9	>–100
Earnings per share	€	–0.22	5.14	>–100
Investments	€ millions	30.0	31.6	–5.1
Depreciation, amortisation and impairments	€ millions	36.9	25.2	46.4
Cash flow from operating activities	€ millions	16.6	8.3	99.6
Non-current assets	€ millions	208.8	217.2	–3.9
Current assets	€ millions	143.4	126.9	13.0
Equity	€ millions	176.9	185.3	–4.5
Equity ratio	%	44.0	53.7	–9.7pp
Non-current liabilities	€ millions	108.4	49.9	117.2
Current liabilities	€ millions	104.5	109.5	–4.6
Employees		2,934	2,632	11.5
KAP AG				
Net profit for the year	€ millions	–2.7	59.5	>–100
Total dividend payout	€ millions	7.8[2]	7.8	0
Number of shares (31 Dec.)		7,767,563	7,767,563	0
Dividend per share	€	1.00[2]	1.00	0

[1] Restated retrospectively due to a correction of error in accordance with IAS 8.
[2] Proposal for the appropriation of retained earnings.

OUR SEGMENTS

FLEXIBLE FILMS

		2022	2021	Change (%)
Revenue	€ millions	177.1	128.4	37.9
Normalised EBITDA	€ millions	22.4	18.2	23.1
EBITDA margin[1]	%	12.6	14.2	–1.6pp
Employees		516	375	37.6

[1] Normalised EBITDA/revenue.

In the **flexible films** segment, we are one of the leading specialists in extrusion coatings, calendering and conditioning 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, semi-finished products for medical applications and high-quality membranes for swimming pool construction.

ENGINEERED PRODUCTS

		2022	2021	Change (%)
Revenue	€ millions	145.7	118.0	23.5
Normalised EBITDA	€ millions	9.2	7.6	21.1
EBITDA margin[1]	%	6.3	6.4	–0.1pp
Employees		886	815	8.7

[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 finishing that provides our customers' products with their characteristic performance all over the world. Our solutions are essential for the specific areas of application of our customers from, for example, the automotive or agricultural sector, road and rail transport, and the oil and gas industry.

SURFACE TECHNOLOGIES

		2022	2021	Change (%)
Revenue	€ millions	65.3	57.6	13.4
Normalised EBITDA	€ millions	6.8	10.4	–34.6
EBITDA Margin[1]	%	10.4	18.1	–7.7pp
Employees		833	750	11.1

[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

		2022	2021	Change (%)
Revenue	€ millions	45.6	38.8	17.5
Normalised EBITDA	€ millions	–0.1	1.6	>–100
EBITDA margin[1]	%	–0.2	4.1	–4.3pp
Employees		638	636	0,3

[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,

2022 was a very unique year for all of us, sometimes in a good way, sometimes in a highly challenging sense. As the KAP AG's Management Board, we are responsible for developing our business and our segments and creating added value for our stakeholders – our investors, employees, customers and the communities in which our production facilities are embedded. In addition, as representatives of a business with global operations, we also feel compelled in exceptional situations to take a stand on issues that do not, strictly speaking, directly concern our company. For more than a year, we have seen what we, for good reason, considered unthinkable: war at the heart of Europe. From the very beginning, we have taken a clear position in the interest of peaceful coexistence of all peoples and every country's right to self-determination.

The Russia-Ukraine war has terrible consequences for millions of people in Ukraine and Russia. It also indirectly impacts us as a company. Rising energy prices as well as higher prices for raw materials and disruptions to supply chains had a significant impact on all four segments of KAP AG in the reporting year. It was only possible to partially pass on price increases to customers, and at best with a time lag. The elasticity of prices varied between segments. While it was possible to pass on relevant cost increases to customers in the **flexible films** and **engineered products** segments, it has been more of a struggle in the **precision components** and **surface technologies** segments, which have a greater orientation toward the automotive sector.

Eckehard Forberich
Member and Spokesman of the Management Board

This meant that the operating environment was extremely challenging once again. Nevertheless, in this highly challenging market environment, we managed to achieve the forecast for the full year published in our April 2022 guidance. KAP generated consolidated revenue of €433.5 million from its continuing operations, around one-quarter more than in the previous year. Accordingly, we delivered on our guidance forecast with respect to a significant increase in revenue. Normalised EBITDA increased slightly to €35.9 million. Here, too, we have kept our word.

Against the backdrop of a difficult global economy, these good figures show once again that the Accelerate strategy programme we initiated two years ago is bearing fruit and that we are competitively positioned in many areas. Having said that, we should also add that we still have plenty of work to do. The normalised EBITDA margin for the full year is 8.3%, falling short of our target of 10%. This shows that we need to become even more efficient and flexible, not least to be even better prepared for the possibility of further price increases. Despite the difficult environment, we would like to propose together with the Supervisory Board a dividend of €1 per share to our shareholders again for the 2022 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 before the Annual General Meeting.

Like we said, 2022 was a very unique year, but also in positive ways. In February, for example, we completed the acquisition of Haogenplast, thus significantly expanding our business with fabric-reinforced swimming pool liners. Featuring outstanding quality, Haogenplast's highly innovative product range has opened up completely new possibilities for us in the visual design of natural pools, most notably in the development of innovative 3D designs. Demand for pools remains high, given the significant growth expected in the future not only on the back of new business, but also in the renovation business. Our products have clear advantages: installation or renovation is much easier, faster and cheaper relative to conventional

Marten Julius
CFO

standard pool tiles. All you need to do is stick on the foil. In order to exploit these advantages even better commercially we are now pooling the strengths of our Elbtal and Haogenplast investees in particular and systematically leveraging operating synergies. This will lead to further strengthening the already successful **flexible films** segment.

Our ability to systematically build up and grow our equity investments in a way that is carefully balanced is also confirmed by the recently concluded agreement for the sale of another subgroup of the **flexible films** segment. The subsidiaries, which focus mainly on high-tech coating solutions for the construction industry, have been developed extremely successfully through targeted expansion of the product range and manufacturing capabilities, as is also attested to by the attractive proceeds obtained from the sale transaction in these dynamic times.

We continue to live in challenging times. The adage "cash is king" is all the more true at present. We see it as one of our main responsibilities to expand and strengthen our long-term financial solidity and flexibility. KAP's secure financing is underscored by the early conclusion of a €125 million loan agreement that runs until April 2026. Furthermore, €50 million is earmarked for acquisitions, subject to the approval of the financing banks. With the new financing package, KAP has secured its financing for the next few years and can focus fully on operational issues in an increasingly uncertain economic environment. Of the total amount, we had drawn down €69.2 million as of year-end 2023.

We have also made great strides in the area of sustainability as we seek to live up to our social and environmental responsibility as a company. In our KAP 2025 ESG Strategy published a few months ago, we assigned specific targets to all key ESG issues, backed them up with measures and made them measurable using KPIs. As a company, we bear responsibility for our environment, but also for the impact that our economic activities have on all stakeholders. In addition, we firmly believe that long-term economic success can only come from responsible business practices. Accordingly, our membership in the UN Global Compact, which we joined in November 2022, is a further logical step underlining our contribution towards sustainable business practices. Our membership as signatories is also an incentive for us to redouble our sustainability activities.

You, dear shareholders, therefore see a sustainable and financially very sound company that has developed in a manner that makes strategic sense and will continue to do so with a carefully balanced sense of proportion. There is still a lot to do. Indeed, one challenge leads to the next. We as members of the Management Board are well aware of this and are therefore tackling the tasks that still lie ahead of us systematically and with great commitment. We thank you for your support on this journey so far and hope we can continue to count on you. We are very grateful for the trust you have placed in us.

Yours sincerely,

Eckehard Forberich
Member and Spokesman
of the Management Board

Marten Julius
CFO

HONING OUR STRATEGY WITH CAREFULLY BALANCED M&A

Swimming pool with fabric-reinforced pool liner.

One plus one equals more than two

What are the ingredients for a successful, sustainable business model? A growth market driven by global megatrends and a model backed by relevant competitive advantages and many years of experience in this environment. All of these boxes are checked in the area of fabric-reinforced pool liners with increasingly very high quality designs and a significant price advantage over other pool lining materials. And we significantly built on this position of strength in 2022 with the acquisition of Haogenplast.

Demand for pools continues unabated, driven by the megatrends of global warming, a decline in public pools and demographic change. As a result, new construction and, in particular, renovation business will continue to grow in the future. More than that, our swimming pool liners offer an unbeatable advantage compared with conventional pool tiles: installation or renovation is considerably easier, faster and cheaper – simply stick on the foil and you're finished. It only takes roughly one or two days to completely line a swimming pool with our high-quality and decorative foils featuring a wide range of finishes from wood and tile to natural stone.

To capture even more of the economic potential inherent in these product advantages, we are now combining our strengths, especially those of our Elbtal and Haogenplast investees, and systematically leveraging operating synergies. This will reinforce our market position for further value growth in the very successful **flexible films** segment. The recently concluded agreement on the sale of another subsection of the **flexible films** segment likewise confirms this approach. The subsidiaries, which focus predominantly on the housing construction and renovation sector, have been developed extremely successfully in recent years through targeted investments and acquisitions to expand the product range and manufacturing capabilities, as is attested to by the attractive proceeds achieved from the sale in these dynamic times.

So what comes next? We will continue to grow, build on our competitive advantages in the relevant market niches and thus strengthen our market presence and brand identity. In this way, we intend to write another chapter in our successful growth story, backed by buy-and-build as well as organic growth in the **flexible films** segment. In other words: that's how we can get more than two out of one plus one.

Premium-quality decorative pool liners are available in a range of finishes, including wood, tile, or natural stone look.

SUSTAINABLE INNOVATIONS FOR GREATER ENVIRONMENTAL PROTECTION

The conscientious use of natural resources has always been an essential part of the corporate philosophy for KAP and its segments. Already deeply anchored in the KAP Group, sustainability in general, and environmental protection in particular, constitute an important element for KAP and its segments. In the 2022 financial year, the ESG strategy was published – a comprehensive sustainability programme and targets to be realised by 2025.

The adopted sustainability strategy draws on five separate non-financial group reports previously prepared as well as the Company's extensive ESG activities so far, including the implemented Code of Conduct. KAP is guided by the objective of sustainable development to secure the future and, through its business operations, makes a contribution towards achievement of individual Sustainable Development Goals (SDGs) of the United Nations. In 2022, we also became a signatory to the United Nations Global Compact, a voluntary initiative for the development, implementation and disclosure of responsible business practices. In doing so, the Company undertakes a commitment to observe the ten underlying principles in the areas of human rights, labour standards, environmental protection and universal anti-corruption. We firmly believe that long-term economic success can only come from responsible business practices.

The segments' operating activities have a significant impact on the environment and society. Consequently, their sustainability focus is placed on ways of saving resources and improving energy efficiency as well as on developing environmentally friendly products. In 2022, our segments continued to make production as sustainable as possible in a variety of ways. Here we present two concrete examples:

KAP again pioneer in environmental protection – with zero emissions vision

The **engineered products** segment is currently tackling a particularly ambitious and sustainable project to conserve resources. Its goal is clear: zero emissions. In other words, it is pursuing the greatest possible reduction of emissions through digitisation, data analytics and by deriving scenarios for smart volume flow management.

Winding of treated cords in the thread stretching unit.

In particular, alternative and more sustainable applications for coating technical fabrics, as well as environmentally friendly drying processes, are to replace the thermal treatment of solvents that has predominated to date. By reducing these organic solvents, we will also reduce the associated emissions.

In addition, great importance is being attached to efficient energy recovery in the construction of a new production plant at the Company's Hessisch Lichtenau site. This is environmentally friendly and also makes economic sense.

Overall, a very concrete action plan has been elaborated that specifically covers the individual improvement steps. In the medium term, we aim to at least halve all emissions at the company site. The measures are regularly evaluated and, if positive, successively applied globally at the other sites of the **engineered products** segment.

Installation of the biofilter in container form.

Exhaust air purification without natural gas: efficient, ecological and very economical

The Heiche Group, part of our **surface technologies** segment, provides another concrete example of how sustainability, resource conservation and entrepreneurship can go hand in hand. Here, some sites use thermal post-combustion to clean exhaust air of pollutants. This type of afterburning consumes natural gas and produces CO_2. At the Leisnig site of Heiche Sachsen GmbH & Co. KG, a "biofilter" was installed a few weeks ago. This makes it possible to completely dispense with natural gas in the exhaust air purification process and thus leads to significantly lower CO_2 consumption. The installation of the biofilter at the Leisnig site is considered a pilot project. The process was tested in advance with a small pilot biofilter in compact container form.

Planning for the biofilter installations began in mid-2022, and regulatory approvals were obtained in the autumn, allowing the first construction activities to take place shortly before Christmas 2022.

It is remarkable how simple the technical principle is: pollutants in the fed-in process exhaust air are filtered out from below by a bioactive layer consisting of inoculated and moist wood chips. The cleaned exhaust air exits the biofilter container at the top.

This important triad of sustainability, environmental protection and economic efficiency has now been installed for the first time for the KAP Group in Leisnig – further expansion to other locations is planned and is being actively pursued. The goal is clear: we want to further reduce the consumption of natural gas.

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 2022 financial year. The 2022 financial year continued to be dominated by the COVID-19 pandemic, in addition to Russia's war against Ukraine and the geopolitical, energy, and economic disruptions it entailed. The restrictions imposed globally to contain the pandemic, as well as the war, have severely impacted the economic environment, particularly through the effects of supply shortages and rising energy and commodity prices. Nevertheless, the KAP Group increased its revenue significantly and was thus able to cope well with the challenges in this third year of crisis. The measures we implemented in the previous year to streamline the product and service portfolio and focus on our core segments certainly helped us. However, the KAP Group also dealt with other events besides COVID-19 and the war. In the course of implementing our strategy, we significantly strengthened the KAP Group with the acquisition of Haogenplast, Israel, and the early refinancing through a new syndicated loan. Together with the Management Board, we will continue to closely monitor the economic environment and introduce additional measures to capture growth potential in the segments, and thus continue to ensure a sustainable value development.

For 2023, we expect that the KAP Group will continue to face a volatile economic environment. In particular, the aggravating repercussions of the Russia-Ukraine war may have a negative impact on the development of business.

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 as well as 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 Company. 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, sustainability management, compliance, corporate planning including financial, investment, sales and personnel planning, and any 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

A total of four regular meetings and one constituent meeting of the Supervisory Board as well as four meetings of the audit committee were held in the reporting year. Unless it was considered appropriate to discuss individual topics such as personnel issues concerning the Management Board without the Management Board's participation, the members of the Management Board took part in the meetings of the Supervisory Board, reporting in detail about the progress of business affairs, current revenue and earnings development, opportunities and risks of business development, significant planned or ongoing investments and disinvestments, and the Company's situation overall. Furthermore, the Supervisory Board informally communicated with the Management Board on the current business performance and current progress on strategic projects, generally on a monthly basis.

The meetings focused on the following topics:

In the meeting of 24 March 2022, we dealt intensively with the annual financial statements for the 2021 financial year. In addition, current M&A projects, legal and human resources issues, the planning of the Annual General Meeting and the results of the efficiency review of the Supervisory Board were discussed. We also dealt with the declaration of compliance, the refinancing of the syndicated loan, and the Management Board reported on the effects of the Russia-Ukraine war.

With the auditor present, at the meeting on 26 April 2022 we dealt extensively with the 2021 separate 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. The auditor explained the audit reports including the key audit matters. The Management Board prepared a report on the relations of the Company with affiliated entities in the 2022 financial year, which the auditor audited and on which the auditor issued the following unqualified audit opinion pursuant to section 313 of the German Stock Corporation Act (AktG):

"Based on our audit and assessment in accordance with professional standards, we confirm that:

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

2. the consideration paid by the Company in the transactions detailed in the report was not unreasonably high, or any disadvantages have been compensated."

The auditor participating in the meetings of the audit committee and of the Supervisory Board reported on the findings of the audit of the report on the relations of the Company with affiliated entities 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 entities and concurs with the independent auditor's audit findings.

At the constituent Supervisory Board meeting on 31 August 2022, Christian Schmitz was elected Chairman of the Supervisory Board and Christoph Schoeller Deputy Chairman. An audit committee was also formed, to which Uwe Stahmer, Christian Schmitz and Christoph Schoeller were elected. Uwe Stahmer was elected Chairman of the committee.

The 22 September 2022 meeting focused on a report by the Management Board on the status of the budget and business development. Moreover, the Management Board reported on the status of M&A activities. Legal and HR topics were also discussed.

On 15 December 2022, we met for the last Supervisory Board meeting in the reporting year. The focus at this meeting was not only current business development but also the budget for the 2023 financial year. In addition, we discussed legal, compliance and personnel matters as well as planning for the 2023 Annual General Meeting. Moreover, the Management Board reported on the status of M&A activities.

The members of the audit committee in the reporting year were Joachim Coers (Chairman until 31 August 2022), Uwe Stahmer (Chairman from 31 August 2022), and Christian Schmitz and Christoph Schoeller (from 31 August 2022). In the 2022 financial year, the audit committee held four meetings on 21 February, 16 May, 29 August and 21 November 2022. The audit committee particularly dealt with the 2021 annual financial statements and consolidated financial statements and the 2022 consolidated half-year report. Furthermore, with the quarterly statements, the non-financial group report, the declaration of compliance, the remuneration report and the Annual General Meeting 2022. 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, the budget and the refinancing of the syndicated loan. In addition, the committee discussed the proposal for the election of the auditor for the 2022 financial year. The committee's Chairman reported on the meetings and the work of the audit committee at each meeting of the Supervisory Board.

INDIVIDUALISED DISCLOSURE OF MEETING ATTENDANCE

The attendance rate of members at Supervisory Board meetings was 100 percent. In the reporting year, all Supervisory Board meetings were held as in-person meetings with the option to participate via video link (hybrid meetings) and all meetings of the audit committee were held as virtual video conferences. None of the meetings were held as an audio conference call. The attendance of the members of the Supervisory Board at the meetings of the Supervisory Board and the committees is disclosed below by individual:

	Supervisory Board plenum		Audit committee	
No. of meetings/ attendance	**No.**	**%**	**No.**	**%**
Christian Schmitz (Chairman)	5/5	100	4/4	100
Christoph Schoeller (Deputy Chairman)	5/5	100	1/1	100
Dr Markus Adams (from 31 August 2022)	3/3	100		
Roy Bachmann	5/5	100		
Joachim Coers (until 31 August 2022)	2/2	100	3/3	100
Viktor Rehart	5/5	100		
Uwe Stahmer	5/5	100	3/4	75
		100		**94**

CORPORATE GOVERNANCE

KAP AG and the Supervisory Board attach great importance to the principles of good corporate governance. In light of this, dealing professionally with the conflicts of interest of individual members of the Supervisory Board is particularly important to the Supervisory Board. A conflict of interest occurred in the case of one member of the Supervisory Board in the reporting year. The member of the Supervisory Board handled this in accordance with the requirements of the rules of procedure for the Supervisory Board, disclosing it promptly to the Chairman of the Supervisory Board. The further development of corporate governance in our Company and compliance with the recommendations of the German Corporate Governance Code were a key focus of our monitoring and advisory work in the 2022 financial year.

The members of the Supervisory Board are responsible for obtaining 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 topics of relevance to the Company relevant topics regarding the business (onboarding).

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS

Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, the auditor appointed by the Annual General Meeting, audited the annual financial statements and consolidated financial statements prepared by the Management Board, including the management report and group management report for the 2022 financial year, together with the accounting records. According to the auditor's conclusion, 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 of 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 the auditor at the Supervisory Board meeting on 25 April 2023. 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 meeting of the Supervisory Board to discuss the financial statements on 25 April 2023. 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 Management Board in detail at its meeting on 25 April 2023 and subsequently approved them. KAP AG's 2022 annual financial statements are thus adopted. We have approved the Management Board's proposal for the appropriation of retained earnings, which, despite the volatile environment, recommends distributing a dividend of €1.00 per share and otherwise carrying forward the remaining retained earnings.

CHANGES ON THE SUPERVISORY BOARD AND ON THE MANAGEMENT BOARD

There were no changes to the Management Board in the reporting year.

The term of office of all members of the Supervisory Board ended upon conclusion of the Annual General Meeting on 31 August 2022, so that a new election was necessary. At the Annual General Meeting on 31 August 2022, Christian Schmitz, Uwe Stahmer, Roy Bachmann, Viktor Rehart, Christoph Schoeller and Dr Markus Adams were elected as members of the Supervisory Board. The term of office of all members of the Supervisory Board runs until the end of the Annual General Meeting for the 2026 financial year.

At the constituent meeting of the Supervisory Board on 31 August 2022, the Supervisory Board unanimously elected Christian Schmitz as Chairman of the Supervisory Board and Christoph Schoeller as Deputy Chairman. The Supervisory Board also formed an audit committee with three members. Uwe Stahmer, Christoph Schoeller and Christian Schmitz were unanimously elected as members of the audit committee and Uwe Stahmer as Chairman of the audit committee.

Joachim Coers' term of office ended with the Annual General Meeting on 31 August 2022. The Supervisory Board would like to take this opportunity to expressly thank Mr Coers for his great and sustained commitment for the benefit of the Company.

THANKS

In a global economy marked by major disruption, the KAP Group reached important milestones in the past financial year. 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 employees for their great dedication and work in the difficult financial year 2022.

Fulda, 25 April 2023

For the Supervisory Board

C. Schmitz

Christian Schmitz
Chairman of the Supervisory Board

CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTIONS 289F AND 315D 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 and sustainability philosophy as an expression of good and responsible corporate management. The principles of corporate governance particularly concern cooperation among the Management Board, the Supervisory Board and between the two boards, and between the boards and the shareholders, particularly in the Annual General Meeting. They also concern our Company's relationship with other people, employees 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 28 April 2022. The Code, which was adopted by the Government Commission on the German Corporate Governance Code, not only reiterates legal requirements on the management and supervision of German listed companies, but also contains 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 preclude 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 compliance pursuant to section 161 of the German Stock Corporation Act (AktG), which was issued on 20 April 2023, permanently available on KAP AG's website at https://www.kap.de/en/investor-relations/corporate-governance/compliance-statement.

Since issuing the last declaration of compliance on 21 April 2022, the Company complied with the recommendations of the German Corporate Governance Code (GCGC) as amended on 16 December 2019, and published in the Federal Gazette (Bundesanzeiger) on 20 March 2020, until the new version of the Code as amended on 28 April 2022 came into force on 27 June 2022, with the following exceptions:

Pursuant to Recommendation D.5 GCGC, 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 Annual General Meeting for the election of members to the Supervisory Board. Due to the number of members of the Supervisory Board (six members) and in view of the fact that the Company's Supervisory Board consists exclusively of shareholder representatives, the Supervisory Board decided against forming a nomination committee. In the Supervisory Board's opinion, the formation of such a nomination committee does not make any contribution towards further increasing the efficiency of the Supervisory

Board's work given the Company's specific situation. The Supervisory Board therefore retains this function within the full Supervisory Board.

Pursuant to Recommendation F.2 GCGC, the consolidated financial statements and group management report should be made publicly accessible within 90 days from the end of the financial year, while mandatory interim financial information should be made publicly accessible within 45 days from the end of the respective reporting period. The consolidated financial statements are not published within 90 days of the end of the financial year, but within four months in accordance with current legal requirements. The interim reports are not published after 45 days, but are published within the legal requirements and the requirements of the Stock Exchange Rules and Regulations of the Frankfurt Stock Exchange. The Company is of the opinion that these requirements are sufficient to provide detailed information to shareholders.

Pursuant to Recommendation G.3 GCGC, the Supervisory Board should use a suitable peer group of third-party entities, the composition of which it should disclose, to assess whether the specific total remuneration of the members of the Management Board is in line with usual levels compared to other enterprises. The Supervisory Board assesses whether the remuneration of the members of the Management Board is appropriate also taking into account the remuneration of the management boards of comparable companies. The Supervisory Board has deliberately refrained from a fixed and static definition of a peer group, as the Supervisory Board is of the opinion that tying remuneration to such a firmly defined peer group may well lead to inappropriate results.

Pursuant to Recommendation G.6 GCGC, the share of variable remuneration achieved as a result of reaching long-term targets should exceed the share from short-term targets. In deviation from the recommendation, the contract with one member of the Management Board provides for equal weighting of short-term and long-term variable remuneration in the event of 100% target achievement in each case. The Supervisory Board also considers equal weighting of the variable remuneration components in the case of a member of the Management Board who is not simultaneously the spokesperson of the Management Board to be a reasonable arrangement that has proven expedient. In the Supervisory Board's view, this current very minor deviation from the recommendation does not lead to misguided incentives and does not justify any intervention in existing contracts. Corresponding provisions can be taken into account in future contracts with members of the Management Board.

Pursuant to Recommendation G.10 sentence 1 GCGC, the variable remuneration of members of the Management Board should be predominantly invested in Company shares by the respective member of the Management Board or granted predominantly as share-based remuneration. The Company deviated from this recommendation in the case of one contract with a member of the Management Board and will continue to deviate from it. All members of the Management Board receive share-based remuneration. Only in one case, the variable remuneration is not predominantly share-based, but is granted in equal parts in cash and share-based. In the Supervisory Board's view, this current very minor deviation from the recommendation does not lead to misguided incentives and does not justify any intervention in existing contracts. Corresponding provisions can be taken into account in future contracts with members of the Management Board.

Pursuant to Recommendation G.11 GCGC, the Supervisory Board should be permitted to retain or reclaim variable remuneration of the Management Board, if justified. The current contracts do not include any provision under which variable remuneration components can be retained or reclaimed if justified (referred to as "disincentive and clawback clauses"). The Supervisory Board is of the opinion that regulations on retaining or reclaiming variable remuneration components are not necessary in the Company to encourage the members of the Management Board to act diligently, in the long term and sustainably in the interests of the Company. Indeed, the Supervisory Board is not precluded from asserting claims for damages in accordance with section 93 AktG in the event of culpable breach of duty. Corresponding provisions can be taken into account in future contracts with members of the Management Board.

The Management Board and Supervisory Board of KAP AG further declare pursuant to section 161 AktG that the recommendations of the Government Commission on the German Corporate Governance Code as amended on 28 April 2022, published in the official section of the German Federal Gazette on 27 June 2022, have been and are being complied with, with the following exceptions:

Pursuant to Recommendation D.4 GCGC, 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 Annual General Meeting for the election of members to the Supervisory Board. Due to the number of members of the Supervisory Board (six members) and in view of the fact that the Company's Supervisory Board consists exclusively of shareholder representatives, the Supervisory Board decided against forming a nomination committee. In the Supervisory Board's opinion, the formation of such a nomination committee does not make any contribution towards further increasing the efficiency of the Supervisory Board's work given the Company's specific situation. The Supervisory Board therefore retains this function within the full Supervisory Board.

Pursuant to Recommendation F.2 GCGC, the consolidated financial statements and group management report should be made publicly accessible within 90 days from the end of the financial year, while mandatory interim financial information should be made publicly accessible within 45 days from the end of the respective reporting period. The consolidated financial statements are not published within 90 days of the end of the financial year, but within four months in accordance with current legal requirements. The interim reports are not published after 45 days, but are published within the legal requirements and the requirements of the Stock Exchange Rules and Regulations of the Frankfurt Stock Exchange. The Company is of the opinion that these requirements are sufficient to provide detailed information to shareholders.

Pursuant to Recommendation G.3 GCGC, the Supervisory Board should use a suitable peer group of third-party entities, the composition of which it should disclose, to assess whether the specific total remuneration of the members of the Management Board is in line with usual levels compared to other enterprises. The Supervisory Board assesses whether the remuneration of the members of the Management Board is appropriate also taking into account the remuneration of the management boards of comparable companies. The Supervisory Board has deliberately refrained from a fixed and static definition of a peer group, as the Supervisory Board is of the opinion that tying remuneration to such a firmly defined peer group may well lead to inappropriate results.

Pursuant to Recommendation G.6 GCGC, the share of variable remuneration achieved as a result of reaching long-term targets should exceed the share from short-term targets. In deviation from the recommendation, the contract with one member of the Management Board provides for an increased weighting of short-term variable remuneration in the event of 100% target achievement. The Supervisory Board also considers an increased weighting of the short-term variable compensation components for the Management Board to be a reasonable arrangement that has proven expedient. In the Supervisory Board's view, this current very minor deviation from the recommendation does not lead to misguided incentives and does not justify any intervention in existing contracts. Corresponding provisions can be taken into account in future contracts with members of the Management Board.

Pursuant to Recommendation G.10 sentence 1 GCGC, the variable remuneration of members of the Management Board should be predominantly invested in Company shares by the respective member of the Management Board or granted predominantly as share-based remuneration. The Company deviated from this recommendation with respect to the service contracts of the Management Board and will continue to deviate from it. All members of the Management Board receive share-based remuneration. However, the variable compensation is not predominantly share-based, but rather cash-based for the most part. In the Supervisory Board's view, this current very minor deviation from the recommendation does not lead to misguided incentives and does not justify any intervention in existing contracts. Corresponding provisions can be taken into account in future contracts with members of the Management Board.

Pursuant to Recommendation G.11 GCGC, the Supervisory Board should be permitted to retain or reclaim variable remuneration of the Management Board, if justified. One current contract still running until the end of September 2023 for a member of the Management Board does not include any provision under which variable remuneration components can be retained or reclaimed if justified (referred to as "disincentive and clawback clauses"). The Supervisory Board is not precluded from asserting claims for damages in accordance with section 93 AktG in the event of culpable breach of duty. As of 1 October 2023, KAP AG will observe recommendation G.11 GCGC.

2. RELEVANT DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES

2.1 Compliance management system and Code of Conduct

Economic success, integrity and social responsibility are goals of our Company that cannot be viewed in isolation from each other – whether we or companies controlled by us operate in Germany, Europe or anywhere else in the world. Based on our 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 pooled the regulations that provide important guidance in a corporate governance culture. As an important component of our Group-wide compliance management system, we have established a dedicated Code of Conduct for our employees, which is accessible at 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 the compliance system as a Group-wide measure to ensure that we observe laws and regulations as well as internal company policies, and as a key element of corporate governance and the corporate culture that must be observed in every aspect of our daily business in the Group. At the same time, the KAP Group seeks to become aware of any compliance violations to avert possible damage to the Company. We have set up a corresponding whistleblower system that gives employees as well as business partners and other third parties the opportunity to confidentially report, without fear of reprisal, suspected breaches of the law in relation to the Company.

The KAP Group's compliance management system focuses 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. Implementation of the compliance policies creates the basic prerequisite for our business partners, shareholders and the general public to trust in the KAP Group's performance, system of values and integrity.

We are further developing our compliance management system and endeavour to establish our values and compliance culture even better in the group entities. In the process, we take account of any changes in the law or further-reaching regulatory changes and any 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. The training sessions are offered as workshops, web-based modules and video content in the relevant national language. Participation in such training is mandatory for our employees and is checked. 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 and implement other relevant measures in the Group's entities.

2.2 Working practices of the Management Board and Supervisory Board

The German Stock Corporation Act (AktG) is the legal foundation of KAP AG's corporate constitution, which 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 Company.

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 jointly 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 to the Group regarding the Group's business development, cash flows and financial performance, planning and target achievement, the risk situation and risk management. Where the Group's business development diverges from the plans and targets 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 segments and regular talks with the segment managers and the managing directors of the operating units, as well as on visits to sites in Germany and abroad. Where the Group's business development diverges from previously drawn up plans and targets, 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 Company'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 the entire management. They work together in a spirit of collaboration and inform each other about important measures and events in their areas of responsibility on an ongoing basis.

Members of the Management Board are subject to comprehensive non-compete clauses throughout the duration of their work for the Company. They take on additional employment, particularly mandates on supervisory boards of companies that are not affiliated entities of KAP AG, only with the consent of the Supervisory Board. Each 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 member of the Management Board without delay. In the 2022 financial year, the members of KAP AG's Management Board 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 and corporate communications, IT as well as legal and compliance.

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 members of the Supervisory Board regularly discuss the topic of succession planning in plenary session taking account of the current appointment durations, the work of the members of the Management Board, 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 members of the

Management Board. 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 in the 2022 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 Supervisory Board must be composed such that its members collectively possess the knowledge, skills and professional expertise required to properly perform their duties. The members of the Supervisory Board should not be members of governing bodies of, or exercise advisory functions at, significant competitors of the Company. 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 Company 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 should 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. It is only permitted to deviate from this limit in justified individual cases.
- The standard limit for the length of service of members of the Supervisory Board is four terms of office or a total of twelve years.
- When selecting candidates for election as members of the Supervisory Board, diversity is taken into account if the candidates are equally qualified.

The last adjustment of the objectives was made in March 2022.

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. The objectives and the profile together form the diversity strategy pursuant to section 289f (2) 6 and section 315d of the German Commercial Code (HGB).

The Supervisory Board takes into account the objectives for the composition and the requirements set out in the profile of skills and expertise as part of the selection process and the nomination of candidates for the Supervisory Board. In preparing the election proposals for the shareholder representatives to be elected by the Annual General Meeting in 2022, the Supervisory Board took account of the objectives, including the profile of skills and expertise. In the opinion of the Supervisory Board, its current composition satisfies the composition targets and covers the profile of skills and expertise. The members of the Supervisory Board possess the professional and personal qualifications deemed necessary. The overall current composition of the Supervisory Board meets the objectives for the composition of the Supervisory Board.

The status of implementation of the profile of skills and expertise is disclosed below in the form of a qualification matrix.

Qualification matrix

	Christian Schmitz	Christoph Schoeller	Dr Markus Adams	Roy Bachmann	Viktor Rehart	Uwe Stahmer
Personal suitability						
Independence[1]		•	•			•
No overboarding[1]	•	•	•	•	•	•
Diversity						
Date of birth	1975	1961	1963	1977	1994	1964
Gender	male	male	male	male	male	male
Nationality	German	Austrian	German	German	German	German
Fields of expertise						
Management or supervision of medium-sized and listed companies	•	•	•			•
Corporate experience in an international setting	•	•	•	•	•	•
Understanding of the Company's strategy	•	•	•	•	•	•
In-depth knowledge of the Company's business models and key business segments	•	•	•	•	•	•
Knowledge of relevant regulatory requirements and experience in risk management, compliance and corporate governance	•	•	•	•		•
Expertise in the fields of accounting and auditing[2]	•		•	•		•
Experience in supervisory and committee work	•	•	•	•	•	•
Experience in M&A processes	•	•	•	•	•	•
Experience with value creation in various value chains			•	•	•	•
Expertise on sustainability issues of importance to the Company		•	•			•

[1] Within the meaning of the GCGC.
[2] Within the meaning of section 100 (5) AktG and Recommendation D.3 GCGC.
• Criterion met, based on a self-assessment by the Supervisory Board. One point indicates at least "good knowledge" and thus the ability to understand the relevant issues well and make informed decisions on the basis of existing qualifications, the knowledge and experience acquired in the course of work as a member of the Supervisory Board (for example, many years of service on the audit committee) or the training measures regularly attended by all members of the Supervisory Board.

At the Annual General Meeting on 31 August 2022, Christian Schmitz, Uwe Stahmer, Roy Bachmann, Viktor Rehart, Christoph Schoeller and Dr Markus Adams were elected to the Supervisory Board. All 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 2026 financial year. In the reporting year, the Supervisory Board elected Mr Christian Schmitz as Chairman of the Supervisory Board and Mr Christoph Schoeller as its Deputy Chairman.

As of the reporting date 31 December 2022, the Supervisory Board comprised Mr Christian Schmitz (Chairman), Mr Christoph Schoeller (Deputy Chairman), Mr Roy Bachmann, Mr Uwe Stahmer, Mr Viktor Rehart and Dr Markus Adams.

In the Supervisory Board's assessment, taking into account the Company's ownership structure, the Supervisory Board has an appropriate number of independent members 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. At present, three members of the Supervisory Board satisfy the independence criterion, namely Christoph Schoeller, Uwe Stahmer and Dr Markus Adams.

The Supervisory Board has formed an audit committee. As of 31 December 2022, the audit committee comprised the following members: Uwe Stahmer (Chairman), Christoph Schoeller and Christian Schmitz. 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 financial reporting process, sustainability reporting, the effectiveness of the internal control system, the risk management system, the internal audit system and the audit of the financial statements. The Supervisory Board and its audit committee each comprise at least one member with accounting expertise, Mr Schmitz, and at least one further member with auditing expertise, the Chairman of the audit committee, Uwe Stahmer. According to the Code, the chairman of the audit committee should be have appropriate expertise in at least one of the two fields and be independent. The audit committee's Chairman, Uwe Stahmer, satisfies these requirements.

In his professional career, Uwe Stahmer served as Chief Financial Officer for many years and therefore brings special knowledge and experience in the application of accounting standards and internal control and risk management systems, including sustainability reporting. His activities also include dealing with and reporting on non-financial aspects. As a former Chief Financial Officer, Uwe Stahmer has in-depth knowledge of sustainability reporting requirements and current developments in this area. At the same time, due to the aforementioned activities, he also has special knowledge and experience in auditing. Furthermore, Mr Uwe Stahmer is independent.

Christian Schmitz has special knowledge and experience in the application of accounting standards and internal control and risk management systems due to his many years working for large international investment banks as well as his current position as managing director of an internationally active private equity company – The Carlyle Group – and the associated management of financial investments. His expertise also covers sustainability reporting and auditing. As Chairman of the Supervisory Board, he does not chair the audit committee.

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 member of the Supervisory Board and the Management Board.

The members of the Supervisory Board are responsible for obtaining 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).

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 on the Management Board was set by the Supervisory Board at 30% when there are three or more members of the Management Board. 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 in the 2022 Annual Report describes the work of the Supervisory Board and its committees in the past financial 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 accessible to the public on the Company's website at https://www.kap.de/en/investor-relations/general-meeting/agenda-documents. The remuneration report and the audit report pursuant to section 162 AktG are accessible to the public at https://www.kap.de/en/investor-relations/reports-amp-presentations/financial-reports.

2. SHAREHOLDERS AND TRANSPARENCY

The prompt and consistent provision of information to the public is an important element 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 provider. No ad hoc disclosures were published in the 2022 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 any 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 at www.kap.de/en/investor-relations.

Shareholders exercise their rights at the Annual General Meeting. In the 2022 financial year, the Annual General Meeting was held as a virtual event within the bounds of legal requirements due to the COVID-19 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 respond immediately to relevant changes in the risk profile and to identify market trends at an early stage. The annual audit covers the proper functioning of the early risk warning system. A detailed presentation is available in the group management report in the 2022 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 2022 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, 20 April 2023

The Management Board
The Supervisory Board

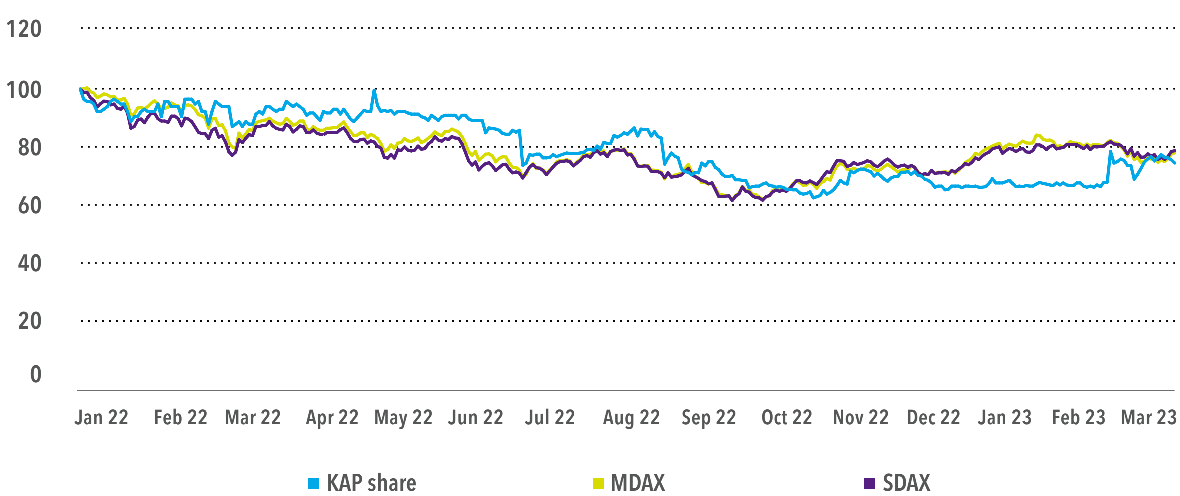
KAP ON THE CAPITAL MARKET

STOCK MARKET YEAR 2022: STOCK MARKETS WITH BIG LOSSES

In the wake of the previous year, which was marked by the COVID-19 pandemic and its repercussions, 2022 was another crisis year. Overall, 2022 was one of the worst stock market years in a long time. While stock markets started into the new year at peak levels at the beginning of 2022, a readjustment followed with the Russia-Ukraine war in February. As a consequence, global stock markets fell sharply. As this difficult stock market year progressed, inflation rose very steeply and economic conditions continued to be difficult due, among other things, to disruptions in supply chains caused by the COVID-19 pandemic. The central banks dropped their zero interest-rate policy, stoking fears on capital markets regarding the development of interest rates. The key interest rate in the United States was raised no less than four times by 0.75 percentage points (75 base points), and again by a further 50 base points at the end of the year. Starting in October 2022, the market rallied somewhat and, as a result, Germany's benchmark index DAX reached an all-time high of 14,541 points on 25 November 2022. Looking back at the year as a whole, however, stock markets lost significant ground overall.

In the 2022 financial year, German stock markets were unable to maintain their positive trajectory from 2021 on account of the Russia-Ukraine war, interest rate fears, and the ongoing difficult economic conditions caused, among other things, by the COVID-19 pandemic's disruption of supply chains. Germany's three most important stock indices – DAX, MDAX and SDAX – reflected developments, peaking at the beginning of January and bottoming out at the end of September. As of the end of the year, all indices thus reported a negative performance. The DAX was down 12.35% to 13,923.59 points, the MDAX dropped 28.49% to 25,117.57 points and the SDAX likewise fell 27.35% to 11,925.70 points (reference date: 30 December 2022).

KAP's share price performance compared with selected indices (%)



KAP'S SHARE PRICE PERFORMANCE

The KAP share lagged behind the market as a whole in 2022. The share reached its annual high at a price of €23.00 early on at the beginning of the year on 3 January. It recorded its lowest value on 2 November at a price of €14.30. The KAP share decreased by a total of 33.70% in 2022, closing at €15.25 on 30 December. The significant loss was due in particular to increased uncertainties in connection with the Russia-Ukraine war, rising prices for energy sources and the resulting chain reaction of price increases, which fuelled interest rate fears on stock exchanges. The KAP Group had a year-end market capitalisation of €118.46 million.

The first few months of 2023 continue to be dominated by the outbreak of the Russia-Ukraine war and its economic effects, most notably supply bottlenecks, inflation and associated interest rate fears. The stock markets are slowly pricing in the latter underlying factors and are showing renewed confidence. The KAP share lost 12.1% since the start of the year, reaching a closing price of €17.10 on 31 March 2022. The SDAX climbed 10.3% and the MDAX 10.1% in the same period.

SHAREHOLDER STRUCTURE UNCHANGED

The shareholder structure remained largely unchanged in the 2022 financial year. As of 31 December 2022, 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 remained the same at 7,767,563 each with a nominal value of €2.60.

PROPOSED DIVIDEND OF €1.00 PER SHARE

Despite the difficult framework conditions, the Management Board and Supervisory Board jointly propose to the Annual General Meeting as regards the appropriation of profit for the 2022 financial year to pay out a dividend of €1.00 per dividend-bearing share and to carry forward the remaining difference. However, the Management Board and the Supervisory

Key data on the KAP share

		2022	2021	2020	2019
Closing price for the year	€	15.25	22.80	13.90	20.20
High for the year	€	23.00	27.60	30.00	38.20
Low for the year	€	14.30	14.00	11.70	19.00
Number of shares (31 Dec.)	Shares (million)	7.8	7.8	7.8	7.8
Market capitalisation (31 Dec.)	€ millions	118.5	177.1	107.9	156.8
Earnings per share	€	–0.22	5.14	–0.35	–1.82
Price-to-earnings ratio[1]		–	4.44	–	–
Dividend per share	€	1.00[2]	1.00	1.75	0.00
Dividend yield	%	6.6[2]	4.4	12.6	0.0
Total dividend payout	€ millions	7.8[2]	7.8	13.6	0.0

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

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: €7.8 million) if shareholders approve this proposal for the appropriation of profit at the Annual General Meeting.

INVESTOR RELATIONS ACTIVITIES INCREASINGLY DIGITAL

As an issuer of shares listed in the Prime Standard segment of Deutsche Börse, we observe the high quality standards and the corresponding ensuing full disclosure 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 2022 either, which is why the August 2022 Annual General Meeting was held as a virtual event. In July 2023, we will hold the Annual General Meeting for the 2022 financial year in a face-to-face format again.

In February 2022, we provided information to institutional investors and analysts about our current business situation and were available to answer their questions at the digital M.M. Warburg Investment Conference and, in May, at the 33rd Munich Capital Markets Conference and the Spring 2022 Conference. 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 the Investor Relations section of our website: www.kap.de/en/investor-relations.

Combined management report

02

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, Germany. As the parent company, it performs in particular 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, HR, compliance, sustainability and administration. The Group's operating business was organised in four segments in the reporting year: **flexible films, engineered products, surface technologies** and **precision components.** Based on a long-term strategy, KAP occupies attractive market niches with potential. The focus is on building up and developing high-margin industrial segments into highly specialised market leaders.

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.

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 the water sector, environmentally friendly tarpaulin fabrics and composite materials for the construction of greenhouses, semi-finished products for medical applications, high-tech projection screens and high-quality, design-oriented membranes for swimming pool construction. In the **flexible films** segment, the full acquisition of vinyl specialist Haogenplast was completed effective 8 February 2022.

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

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

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

Structure of the KAP Group until 31 December 2022

KAP Group			
flexible films	**engineered products**	**surface technologies**	**precision components**
40.9% (previous year: 37.1 %) share in revenue [1]	33.6% (previous year: 34.1%) share in revenue [1]	15.1% (previous year: 16.7%) share in revenue [1]	10.5% (previous year: 11.3%) share in revenue [1]

[1] Share of total revenue in the 2022 financial year.

Main products and key applications

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

CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The term of office of the members of the Supervisory Board ended upon conclusion of the Annual General Meeting on 31 August 2022, such that a new election was necessary. At the Annual General Meeting on 31 August 2022, Christian Schmitz, Christoph Schoeller, Dr Markus Adams, Roy Bachmann, Viktor Rehart and Uwe Stahmer were elected as members of the Supervisory Board. The term of office of all members of the Supervisory Board runs until the end of the Annual General Meeting that passes the resolution exonerating the Supervisory Board for the 2026 financial year.

At the constituent meeting of the Supervisory Board on 31 August 2022, the Supervisory Board unanimously elected Christian Schmitz as Chairman of the Supervisory Board and Christoph Schoeller as Deputy Chairman. In addition, the Supervisory Board formed an audit committee with three members. Uwe Stahmer, Christoph Schoeller and Christian Schmitz were unanimously elected as members of the audit committee and Uwe Stahmer as Chairman of the audit committee.

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 United States.

OBJECTIVES AND STRATEGIES

To further develop its segments, the KAP Group put together concrete packages of measures in a strategy programme in the past financial year, taking account of the existing corporate strategy. The programme is scheduled to be implemented by the end of 2023. Our business model is designed for sustainable value development. 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.

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 take any appropriate measures necessary. In order to manage complex processes, in the past financial year we further developed the central KPI and monitoring approach. KAP AG also supports the segments with implementation of the content by jointly specifying on the basis of professional expertise and developing 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, any 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 financial and non-financial key performance indicators, including from the statement of income, statement of financial position, liquidity forecast and statement of cash flows. A monthly analysis of working capital is also conducted.

KEY FINANCIAL PERFORMANCE INDICATORS

The most important key performance indicators include, in particular, revenue; earnings before interest, taxes, depreciation and amortisation (EBITDA); "normalised EBITDA", which has been adjusted for special items (for the reasons and its derivation, see page 38); capital expenditure and regularly updated liquidity planning. To enable long-term comparison and a better understanding of business development, KAP AG normalises certain income and expense items that management believes represent special items and are not associated with current operating activities. The composition and development of these key figures in the reporting year is explained in the economic report starting on page 34.

RESEARCH AND DEVELOPMENT

Within the KAP Group, 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 solutions to market readiness early on, together with our customers. At the same time, we optimise coordination of individual R&D activities within the segments by means of overarching management by the segment managers. We essentially pursue three strategic approaches with our activities: the continuous development of new products and product groups; 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 ensuring sustainability and improving product properties or reducing manufacturing costs. In the 2022 financial year, research and development expenditure for fundamentally new products and processes within the KAP Group totalled €1.9 million (previous year: €1.9 million). This concerned in particular costs for software development of €0.0 million (previous year: €0.3 million) and costs for tools and sample parts of €1.9 million (previous year: €1.6 million).

ECONOMIC REPORT

MACROECONOMIC AND INDUSTRY-SPECIFIC CONDITIONS

DEVELOPMENT OF THE GLOBAL ECONOMY

The global economy grew at a slower pace in 2022 than in the previous year due to numerous global challenges. According to the International Monetary Fund (IMF), global economic output increased by 3.4% in relation to 2021. In the previous year, the global economy had been able to recover from the COVID-19 pandemic with growth of 6.2%.

The slowdown in growth is due in particular to the Russia-Ukraine war and the COVID-19 pandemic, which has not yet been finally overcome in China, among other countries. A significant increase in energy and food prices has pushed up inflation globally. International central banks responded by reversing the trend and adopting a more restrictive monetary policy. The resulting increase in financing costs has led, among other things, to a reluctance to invest, which has ultimately had a negative impact on growth momentum.

Economic environment[1]

Real change in GDP in %	2022	2021
World	3.4	6.2
Euro area	3.5	5.3
Germany[2]	1.9	2.6
USA	2.0	5.9
Emerging economies	3.9	6.7

[1] International Monetary Fund (IMF) – World Economic Outlook Update, January 2023.
[2] Destatis, press release no. 020, 13 January 2023.

ECONOMIC DEVELOPMENT BY REGION

In the **euro area**, GDP rose by a total of 3.5% in 2022 according to data from the IMF (previous year: 5.3%). The **German** economy underperformed by global and European standards. Following its solid economic recovery in the previous year, Germany's economy was particularly impacted by the consequences of the Russia-Ukraine war last year due to its regional proximity and the high energy dependency. GDP grew by 1.9% in 2022 according to preliminary calculations of the German Federal Statistical Office (Destatis). In contrast to the previous year, there was a wide variation in the development of individual economic sectors according to Destatis. Companies in the "other service providers" category, including the creative and entertainment industries, posted particularly strong growth of 6.3%, benefiting from the lifting of COVID-19 protection measures and the effects of pent-up demand. The trade, transport and hospitality sector also benefited, with growth of 4.0%. The information and communication sector grew by 3.6%. The manufacturing sector, by contrast, recorded only weak growth of 0.2%. High energy prices and bottlenecks for intermediate products slowed down the development of the industry. The construction industry was the only sector to suffer a decline, down by as much as 2.3%. According to Destatis, private consumer spending was an important pillar of the German economy on the demand side in 2022. The effects of pent-up demand drove up spending by 4.6% in real terms, almost reaching pre-crisis levels. Gross fixed capital formation remained at the level of the previous year (+0.2%). Exports increased by 3.2% in price-adjusted terms, while 6.7% more goods and services were imported than in the previous year. Despite the difficult environment, the labour market proved robust, with the average number of people in work rising by 1.3% to 45.6 million in 2022.

According to the IMF, **U.S.** economic output in 2022 also grew at a much slower rate of 2.0% relative to the previous year (5.6%). **Emerging** markets experienced economic growth of 3.9% in the past year (previous year: 6.7%). Due to the strict COVID-19 restrictions in place until the last quarter of the year, China, the driver of global economic growth in recent years, was only able to grow by 3.0% (previous year: 8.4%).

DEVELOPMENT OF KEY 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. There is only limited publicly available data on current developments in these markets due to their particular nature. Some of the segment companies are particularly dependent on the automotive sector.

The development of general economic conditions and of industrial production is of great significance for the KAP Group. According to data published by the German Federal Statistical Office and calculations by the Federation of German Industries (BDI), production in the manufacturing sector increased by 1.3% in the third quarter of 2022 compared with the previous year, after adjusting for calendar effects. Production of consumer goods decreased by 0.7% year on year. Capital goods were up, but construction also sustained a year-on-year decline (7.6% and –1.1% respectively).

According to the latest forecast by the German Association of the Automotive Industry (VDA), a total of 71.2 million passenger cars were sold worldwide in 2022. This means that the global passenger car market remains unchanged on the previous year and is still 11.7% below the pre-crisis level of 2019. The United States and Europe saw sales decline by 8% and 4% respectively in 2022 due to semiconductor and supply chain issues and the general global economic conditions. In contrast, the world's largest market, China, grew by 9% in 2022 and, with 23 million new passenger cars sold, had already well surpassed the pre-crisis level of 21.1 million units. Passenger car production in Germany grew by 13% to 3.5 million vehicles in 2022. By contrast, production outside Germany by brands belonging to German automotive groups increased by only 3%. According to the experts at the Center Automotive Research Duisburg (CAR), however, the car market is currently bouncing back to normality. Accordingly, rising production figures coupled with restrained demand are putting an end to the long waiting times and supply shortages.

A total of 833,500 new electric cars were registered in Germany over the course of the year 2022 (up 22%) according to the VDA. Accordingly, electric vehicles accounted for 31.4% of total new registrations in 2022, an increase of 5.1 percentage points compared with the previous year. This means that almost one in three cars was electric. Indeed, electric cars accounted for more than half of all new registrations in December 2022. The particularly strong demand in December is mainly due to pent-up demand resulting from expiring or decreasing subsidies for hybrid and electric vehicles.

BUSINESS PERFORMANCE

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

The KAP Group's business developed very favourably in terms of sales revenue, driven in part by price increases. However, it was not possible to pass on to customers the full amount of cost increases for energy and materials. This and disruptions to supply chains, particularly on the customer side, had a negative impact on earnings. KAP generated consolidated revenue of €433.5 million, up 25.4% year on year (previous year: €345.6 million). Excluding the contribution to revenue from the acquisition of Haogenplast as of 1 February 2022, this corresponds to organic revenue growth of around 11.4%. Normalised EBITDA rose slightly by 2.6% to €35.9 million (previous year: €35.0 million). The KAP Group thus reached the full-year forecast for consolidated revenue issued as guidance in April 2022, which was significantly above the previous year's level. The same applies to the achievement of the normalised EBITDA target, which was slightly up on the previous year as expected. We are satisfied overall with this business performance with respect to our forecast for the full year and in view of the significantly more difficult conditions.

The normalised EBITDA margin decreased by 1.8 percentage points to 8.3% (previous year: 10.1%). This key performance indicator is thus below our target of 10.0%. The narrowing of the margin is mainly attributable to the significantly higher materials and energy costs in the reporting period, which could only be passed on to customers in part and with a time lag. At €30.0 million, our investments in intangible assets and in property, plant and equipment were slightly below the previous year's level (previous year: €31.6 million). Consolidated profit/loss after taxes deteriorated very significantly from €39.9 million to €–1.7 million due to non-recurring effects in the previous year in connection with the sale of the IT segment and the commercial property in Fulda as well as current cost developments.

On the customer side, the automotive sector in particular was significantly affected by supply chain bottlenecks in the financial year. This was also reflected in our **surface technologies** and **precision components** segments, which are more heavily focused on the automotive sector.

The **flexible films** segment benefited from its broader positioning, partly as a result of the acquisition of Haogenplast completed in February of the reporting year, with its focus on swimming pool liners. The **engineered products** segment also achieved a significant increase in revenue and earnings, mainly due to a higher-value product mix and further optimisation measures.

The fourth quarter in particular was challenging: a time lag in passing on cost increases was compounded by supply chain issues at key customer groups and still subdued demand overall. The considerable turbulence in international supply chains persists in the first quarter of the 2023 financial year and continues to impact the KAP Group's business. Accordingly, the restructuring programme, which has been successful to date and was continued systematically and on schedule during the reporting period, will now be implemented and finalised at an accelerated pace.

Forecast/actual comparison

€ millions	2021	2022 forecast	2022 financials
Revenue	345.6	Significant increase	433.5
Normalised EBITDA	35.0	Slight increase	35.9

SIGNIFICANT EVENTS

On 1 February of the reporting year, the acquisition of 100% of the shares in Haogenplast Ltd. was closed in the **flexible films** segment. In the course of this transaction, the Group acquired intangible assets of €8.4 million, property, plant and equipment of €17.9 million, and current assets of €27.3 million. Haogenplast Ltd. accounts for a total of 11.2% of the Group's revenue for the period since consolidation. With the acquisition of Haogenplast, the Group intends to continue its growth trajectory.

In addition, the Group's financing was readjusted ahead of schedule by means of a new syndicated loan agreement with a term until April 2026 and a maximum volume of €125.0 million. Subject to approval, a further €50.0 million is available under this loan agreement for further acquisitions.

On 1 February, an asset deal was transacted with PENTACON GmbH in the **precision components** segment, in the course of which hidden reserves of €1.2 million were identified in customer lists and of €1.1 million in machinery.

A factoring programme with Targobank was extended to other group companies during the financial year. Under these transactions, all material risks are transferred to the buyer, leading to actual derecognition of the receivables at the companies in accordance with IFRS 9.3.2.6. At year-end, the group companies participating in the factoring programme had sold receivables totalling €18.5 million.

It was decided during the financial year to sell a total of seven entities in the **flexible films** segment to an external investor. The largest entity to be sold is CaPlast Kunststoffverarbeitungs GmbH with a contribution to revenue of €58.1 million in 2022. The sale is expected to be closed in 2023, such that these entities will probably no longer be included in next year's consolidated financial statements.

GENERAL EXPLANATIONS REGARDING THE CONSOLIDATED GROUP

The acquisition by KAP AG of 100% of the shares in plastics specialist Haogenplast Ltd. was completed on 1 February 2022. There were no other significant changes in the consolidated group.

PERFORMANCE

FINANCIAL PERFORMANCE

Selected key indicators on financial performance

		2022	2021[1]	Change (%)
Revenue	€ millions	433.5	345.6	25.4
EBITDA	€ millions	43.5	56.6	–23.1
Normalised EBITDA[2]	€ millions	35.9	35.0	2.6
Normalised EBITDA margin[3]	%	8.3	10.1	–1.8pp
Depreciation, amortisation and impairments	€ millions	36.9	25.2	46.4
Normalised operating result (EBIT)	€ millions	–1.8	9.9	>–100
Operating result (EBIT)	€ millions	6.6	31.4	–79.0
Financial result	€ millions	–5.4	–3.1	–74.2
Earnings before taxes (EBT)	€ millions	1.2	28.3	–95.8
Earnings from continuing operations	€ millions	–2.7	21.7	>–100
Consolidated profit/loss after taxes	€ millions	–1.7	39.9	>–100
Earnings per share	€	–0.22	5.14	>–100
Dividend per share	€	1.00[4]	1.00	0.0

[1] Continuing operations (excl. it/services).
[2] See overview of special items and non-recurring effects (page 38).
[3] Normalised EBITDA/revenue.
[4] Proposal for the appropriation of retained earnings.

In the 2022 financial year, the KAP Group's revenue increased by 25.4% to €433.5 million (previous year: €345.6 million). One major effect concerns the increase in revenue due to the first-time consolidation of Haogenplast Ltd. (Haogenplast for short) as of 1 February 2022. Excluding the contribution to revenue from the Haogenplast acquisition, this corresponds to organic revenue growth of about 11.4%. As in the previous year, currency effects did not have a material impact in the reporting year.

Revenue by region

€ millions	2022	2021	Change (%)
Germany	133.3	124.2	7.3
Rest of Europe	203.6	155.4	31.0
North/South America	56.9	33.6	69.3
Asia & Australia	43.2	31.8	35.8
Other & consolidation	–3.6	0.6	>–100
Total	**433.5**	**345.6**	**25.4**

All the KAP Group's target markets developed positively. Revenue increased by 7.3% in Germany and increased even more significantly by 31.0% in the rest of Europe. At 69.3%, the highest growth was achieved in North and South America. There was also positive impetus from Asia, with revenue growth of 35.8%. The proportion of revenue generated in Germany decreased to 30.7% (previous year: 35.9%). By contrast, the share generated in the rest of Europe increased to 47.0% (previous year: 45%). The North and South America region contributed 13.1% (previous year: 9.7%). The revenue contribution from Asia increased slightly to 10.0%. In total, the foreign share of total revenue thus increased significantly by 5.2 percentage points to 69.3% (previous year: 64.1%).

Inventories of finished goods and work in progress increased by €6.3 million (previous year: increase of €5.8 million), mainly due to price increases and risk provisions for possible supply chain disruptions. Other own work capitalised came to €0.6 million (previous year: €1.0 million). Total operating performance thus increased to €440.3 million (previous year: €352.4 million).

Other operating income decreased significantly by 38.9% to €28.8 million in the reporting year (previous year: €47.1 million) and mainly includes insurance reimbursements, rental income, exchange rate gains,

gains on the disposal of assets, and income from the reversal of provisions. In the previous year, other operating income still included proceeds from the sale of a property.

Cost of materials increased by 33.4% to €257.8 million (previous year: €193.3 million), and the ratio of cost of materials to total operating performance increased by 3.8 percentage points to 58.6% (previous year: 54.8%). This development mainly reflected the impact of supply chain issues with sharply increased raw material prices. Our group entities can only pass on these price rises to customers in part and with a time lag. Furthermore, €31.2 million of the increase is attributable to the first-time consolidation of Haogenplast Ltd., which accounted for 12.1% of the cost of materials in the 11-month period. Personnel expenses increased by 18.6% to €103.2 million in the reporting year (previous year: €87.0 million). The ratio of personnel expenses to total operating performance was 23.4% and thus 1.3 percentage points lower than the previous year's figure of 24.7%. The improvement reflected the effects of the pandemic in the previous year. Other operating expenses increased by 3.0% to €64.6 million (previous year: €62.7 million). This was mainly attributable to increases in the cost of outgoing freight, packaging material and exchange rate losses.

Normalised EBITDA rose by 2.6% to €35.9 million (previous year: €35.0 million). The **flexible films** and **engineered products** segments contributed to this development. With this core earnings KPI, we eliminate special and non-recurring effects and thus increase the transparency of the development of operating activities development and comparability of individual KPIs over time. The **precision components** and **surface technologies** segments reported significantly lower normalised EBITDA figures due to the challenging situation faced by their end customers, particularly in the automotive sector. In the reporting year, net normalisation adjustments totalled €–7.6 million (previous year: €–21.5 million). Without considering all special and non-recurring effects, EBITDA decreased by 23.1% to €43.5 million (previous year: €56.6 million).

The normalisation adjustments are mainly attributable to subsequent proceeds from the sale of the commercial property in Fulda amounting to €5.8 million, insurance remuneration relating to previous years totalling €5.9 million, which was deducted from EBITDA, and increases in EBITDA of €4.3 million due to extensive restructuring and expansion measures, mainly at the plant being built by Heiche US Surface Technology LP in Jasper, United States, and restructuring processes in the **surface technologies** and **precision components** segments. In contrast, gains on the disposal of assets amounting to €4.8 million was deducted from EBITDA. Normalisation adjustments were also made for transaction-related expenses of €1.2 million and severance payment expenses of €2.3 million. The following table shows the normalisation adjustments in full:

Overview of special items and non-recurring effects

€ millions	2022	2021	Change (%)
EBITDA	43.5	56.6	–23.1
Severance payments	2.3	0.9	155.5
Reversal of impairment losses on property, plant and equipment in the engineered products segment	0.0	–6.2	–100.0
Transaction-related consulting fees	1.2	2.1	–42.9
Sale of Fulda commercial property	–5.8	–14.7	60.5
Gains/losses on the disposal of assets	–4.8	–2.1	128.1
Net balance of fire damage in the surface technologies segment	–5.9	–0.7	> 100
Restructuring costs in the surface technologies and precision components segments	4.3	0.0	n.a.
Other	1.0	–0.8	–
Normalised EBITDA	35.9	35.0	2.6

In the reporting year, depreciation, amortisation and impairments increased significantly overall, up 46.4% to €36.9 million (previous year: €25.2 million), with depreciation and amortisation in the Group up €7.7 million to €32.9 million (previous year: €25.2 million). The increase is mainly due to the first-time consolidation of Haogenplast. The impairment losses of €3.0 million concern the goodwill attributable to the **surface technologies** segment.

The operating result (EBIT) reflects that it was not possible to pass on price increases to customers in full and not always in a timely manner. In addition, the operating result in the previous year was heavily influenced by non-recurring effects. As a result, EBIT decreased significantly by €24.8 million to €6.6 million in the reporting year (previous year: €31.4 million). The financial result amounts to €–5.4 million (previous year: €–3.1 million) and reflects the increase in financial debt and higher interest rates. Earnings before taxes (EBT) decreased to €1.2 million (previous year: €28.3 million). Income tax expenses came to €3.9 million (previous year: €6.6 million). Of this amount, €1.0 million relates to deferred taxes (previous year: €–0.4 million). The profit/loss from discontinued operations amounted to €1.0 million (previous year: €18.2 million). In the previous year, this reflected the disposal of it/services.

There was a considerable decrease from a consolidated profit for the year after taxes of €39.9 million to a loss of €1.7 million. Earnings per share decreased accordingly from €5.14 to €–0.22.

Segment development

Segment flexible films

Selected key indicators on development in the flexible films segment

		2022	2021	Change (%)
flexible films				
Revenue	€ millions	177.1	128.4	37.9
EBITDA	€ millions	22.3	18.1	23.2
Normalisation adjustments	€ millions	0.1	0.1	0.0
Normalised EBITDA	€ millions	22.4	18.2	23.1
Normalised EBITDA margin	%	12.6	14.2	–1.6pp
Capital expenditure	€ millions	9.7	4.1	135.8
Employees as of 31 December		516	375	37.6

The **flexible films** segment continued its growth course in 2022, partly driven by the acquisition of Haogenplast completed in February. Influenced by megatrends such as global warming, demographic change and a decline in public swimming pools, the segment recorded an increase in demand for pool liners and thus also revenue growth of 37.9% to €177.1 million (previous year €128.4 million). The increase in revenue is mainly influenced by the addition of Haogenplast Ltd. with revenue for the period from 1 February to 31 December 2022.

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. In addition, some customers have discontinued their previously significant business in Russia. The third factor weighing down on earnings was the decline in construction activity.

Nevertheless, normalised EBITDA climbed by 23.1% to €22.4 million (previous year: €18.2 million). The normalised EBITDA margin fell slightly by 1.6 percentage points to 12.6% (previous year: 14.2%), particularly due to the increase in prices of raw materials.

The segment companies' capital expenditure totalled €9.7 million in 2022 (previous year: €4.1 million). This reflects catch-up effects, as some investments were postponed in the previous year to the reporting period due to the restrictions imposed in connection with the COVID-19-related restrictions. The purpose of the material capital expenditure was to expand business operations.

Due to the acquisition of Haogenplast, headcount also increased significantly by 37.6% to 516 as of 31 December 2022 (previous year: 375).

engineered products segment

Selected key indicators on development in the engineered products segment

		2022	2021	Change (%)
engineered products				
Revenue	€ millions	145.7	118.0	23.5
EBITDA	€ millions	6.7	15.0	–55.3
Normalisation adjustments	€ millions	2.5	–7.4	n.a.
Normalised EBITDA	€ millions	9.2	7.6	21.1
Normalised EBITDA margin	%	6.3	6.4	–0.1pp
Capital expenditure	€ millions	7.9	5.4	46.2
Employees as of 31 December		886	815	8.7

The **engineered products** segment saw a significant increase in both revenue and EBITDA, due in particular to its higher-value product mix, lower scrap rate and further optimisation measures.

Revenue in the **engineered products** segment thus increased by 23.5% to €145.7 million in the reporting period (previous year: €118.0 million). Normalised EBITDA likewise increased significantly by 21.1% to €9.2 million (previous year: €7.6 million). The normalised special items and non-recurring effects from the reporting period, which totalled €2.5 million, largely comprise severance payments as well as legal and consulting costs in connection with process optimisation in segment management. The normalised EBITDA margin decreased slightly by 0.1 percentage points to 6.3% (previous year: 6.4%).

Capital expenditure increased significantly by 46.2% to €7.9 million (previous year: €5.4 million). In addition to the measures already implemented in the reporting period, they mainly comprise operational maintenance measures at the Hessisch Lichtenau site.

As of 31 December 2022, 886 people were employed in the **engineered products** segment (previous year: 815). This is equivalent to a year-on-year increase of 8.7% and is largely due to the increase in headcount in Portugal.

surface technologies segment

Selected key indicators on development in the surface technologies segment

		2022	2021	Change (%)
surface technologies				
Revenue	€ millions	65.3	57.6	13.4
EBITDA	€ millions	8.9	11.0	–19.1
Normalisation adjustments	€ millions	–2.1	–0.6	>100
Normalised EBITDA	€ millions	6.8	10.4	–34.6
Normalised EBITDA margin	%	10.4	18.1	–7.7pp
Capital expenditure	€ millions	7.9	15.4	–48.7
Employees as of 31 December		833	750	11.1

The **surface technologies** segment felt the effect of global supply chain disruptions in the automotive industry as well as customer-related delays at a plant under construction in the United States. In addition, it was not possible to pass on the rise in costs immediately in full. Reduced call-off volumes at large customers due to supply shortages had an adverse effect, especially in the fourth quarter of 2022. However, revenue in the **surface technologies** segment still increased by around 13.4% to €65.3 million (previous year: €57.6 million).

Normalised EBITDA decreased by 34.6% to €6.8 million in the reporting period (previous year: €10.4 million), with net normalisation adjustments amounting to

€–2.1 million. The normalised EBITDA margin decreased by 7.7 percentage points to 10.4% (previous year: 18.1%) as a result of various effects relating to the supply chain issues as well as additional costs in connection with the plant under construction in Jasper.

At €6.9 million, capital expenditure in the **surface technologies** segment were thus significantly lower than in the previous year (previous year: €15.4 million). The decrease is due to the very high capital expenditure at the site in Jasper, United States, in the previous year, which were primarily commissioned in the financial year and therefore reclassified from assets under construction to technical equipment and machinery. The purpose of the material capital expenditure is to expand business operations and generate further growth in the United States.

As of 31 December 2022, 833 people were employed in the **surface technologies** segment – up 11.1% compared with the end of the previous year (750).

precision components segment

Selected key indicators on development in the precision components segment

		2022	2021	Change (%)
precision components				
Revenue	€ millions	45.6	38.8	17.5
EBITDA	€ millions	–0.5	2.2	> –100
Normalisation adjustments	€ millions	0.5	–0.6	> 100
Normalised EBITDA	€ millions	–0.1	1.6	> –100
Normalised EBITDA margin	%	–0.2	4.1	–4.3pp
Capital expenditure	€ millions	3.9	6.5	–40.0
Employees as of 31 December		638	636	0.3

The **precision components** segment also struggled with the challenges facing the automotive industry, both in terms of revenue and at earnings level. Some individual contracts reached larger volumes, but the number of orders received declined considerably. Nevertheless, the segment recorded a 17.5% increase in revenue in the 2022 financial year to €45.6 million (previous year: €38.8 million).

Normalised EBITDA dropped to €–0.1 million in 2022 (previous year: €1.6 million). The drop is mainly due to prices only being passed on partly and with a time lag. On aggregate, the normalisation adjustments made amounted to €0.5 million. The normalised EBITDA margin narrowed by 4.3 percentage points to –0.2% (previous year: 4.1%).

Driven by the expansion of the e-bike business, investment spending decreased to €3.9 million (previous year: €6.5 million). The purpose of the material capital expenditure is to expand business operations.

The headcount remained unchanged as of 31 December 2022 at 638 (previous year: 636).

CASH FLOWS

Principles and goals of financial management

The KAP Group's financial management includes procuring equity and borrowed capital, managing liquidity and managing interest rate and currency risks. The Group Treasury department is responsible for these matters 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 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 generating further cash, reducing the net debt to EBITDA ratio and optimising 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 required for the use of these instruments are set out in internal policies. As in the previous year, no derivatives were used in the reporting year.

Contingent liabilities and other financial obligations

In the 2022 financial year, contingent liabilities and other financial obligations amounted to €3.7 million (previous year: €10.6 million); of that amount €2.8 million (previous year: €9.1 million) related to purchase commitments for property, plant and equipment, mainly for a plant under construction in the United States, €0.4 million to purchase commitments for investment properties (previous year: €0.6 million) and €0.5 million (previous year: €0.9 million) to guarantees.

Capital structure and liquidity

Development of net debt

€ millions	2022	2021	Change (%)
Non-current financial liabilities	85.7	26.7	221.0
+ Current financial liabilities	31.9	43.1	–26.0
Financial liabilities	117.6	69.7	68.7
– Cash and cash equivalents	9.8	17.4	–43.7
Net debt	107.8	52.3	106.1

As of 31 December 2022, financial liabilities increased by 68.7% to €117.6 million (previous year: €69.7 million) mainly due to the new syndicated loan agreement. Liabilities to banks increased by 100.8% to €94.8 million (previous year: €47.2 million). Of this amount, €66.5 million (previous year: €6.7 million) was accounted for by liabilities with a remaining term of more than one year and €28.3 million (previous year: €40.5 million) by liabilities with a remaining term of up to one year. The majority of the loan agreements are based on the euro. The volume of liabilities in Israeli shekel is €14.1 million, while an amount of €5.8 million is denominated in Czech koruna.

KAP's secure financing position is underlined by the conclusion of a €125.0 million loan agreement that was signed with a new syndicate of banks and runs until April 2026. An additional amount of €50.0 million is earmarked for acquisitions, subject to the approval of the financing banks. An amount of €69.2 million had been drawn down as of the end of the reporting period. The interest rate is at least 1.8% and depends on Euribor and the net debt to EBITDA ratio. The agreement provides for margins between 1.8% and 2.85% above Euribor. In 2022, the applicable interest rates ranged between 1.4% and 5.9%.

Lease liabilities increased slightly to €22.8 million (previous year: €22.5 million). The building lease for our new entity Haogenplast in Israel was the main reason for the increase. Lease liabilities of €2.3 million are reported under liabilities of the disposal group in the reporting year.

Taking account of the lower level of cash and cash equivalents of €9.8 million (previous year: €17.4 million), net debt as of the end of the 2022 financial year increased by 106.1% to €107.8 million (previous year: €52.3 million). The increase was due in particular to financing the Haogenplast acquisition. Furthermore, working capital has increased – on the one hand in line with the price increases and, on the other hand, KAP has also actively invested in working capital to enable it to respond flexibly to any supply chain problems.

Cash flow and capital expenditure

Selected key indicators on cash flows

€ millions	2022	2021	Change (%)
Cash flow from operating activities	16.9	8.3	103.6
Cash flow from investing activities	–49.2	18.4	> –100
Cash flow from financing activities	25.0	–24.8	> 100
Net change in cash and cash equivalents	–7.7	1.9	> –100
Change in cash and cash equivalents due to exchange-rate and consolidated-group effects	0.0	–0.2	> 100
Cash and cash equivalents at end of period	9.8	17.4	–43.7

Cash flow from operating activities rose significantly by 103.6% to €16.9 million in the 2022 financial year (previous year: €8.3 million). The increase is mainly the result of expanded business activities with significantly higher revenue compared with the previous year. The increase in trade receivable in the reporting year caused by price increases was offset by expanding factoring, which in turn had a positive effect on cash flow from operating activities.

Cash outflow from investing activities came to €49.2 million in the reporting year (previous year: cash inflow of €18.4 million). In the previous year, the cash flow included, and was strongly impacted by, the cash received from the sale of the commercial property in Fulda (€30.4 million) and from the sale of the IT segment (€19.3 million). In the reporting year, it includes cash of €28.9 million paid for the acquisition of Haogenplast. At €26.6 million overall, payments for investments in property, plant and equipment, excluding leasing, were slightly below the previous year's level (€30.1 million). Proceeds from the disposal of property, plant and equipment including investment properties amounted to €7.6 million (previous year: €37.5 million). Payments for investments in intangible assets decreased to €0.7 million (previous year: €1.2 million).

Cash flow from financing activities increased by €49.4 million in the reporting year to €24.6 million (previous year: €–24.8 million). The main reason here was the refinancing arrangement for the Haogenplast acquisition and that for the higher level of working capital. In the financial year, the old syndicated loan of €71.8 million was repaid early and the new syndicated loan of €69.2 million was paid out. The dividends paid to shareholders of KAP AG for the 2021 financial year of €7.8 million (previous year: €13.6 million) reduced cash flow accordingly.

As of 31 December 2022, cash and cash equivalents amounted to €9.8 million (previous year: €17.4 million). Overall, the cash inflows from operating activities of €16.9 million and from financing activities of €25.0 million were insufficient to offset the cash outflow from investing activities of €49.2 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 property and financial assets – decreased considerably to €–32.3 million (previous year: €26.7 million). The reasons for the decrease included the Haogenplast acquisition in the reporting year and the sale of the commercial property in Fulda as well as the IT segment in the previous year.

Calculation of free cash flow

€ millions	2022	2021	Change (%)
Cash flow from operating activities	16.9	8.3	103.3
Payments for the addition of consolidated companies	–29.3	–7.2	>–100
Proceeds from the disposal of consolidated companies	0.0	19.3	–100.0
Proceeds from the disposal of property, plant and equipment including investment property	7.6	37.5	–79.7
Payments for investments in property, plant and equipment including investment property	–26.6	–30.1	–11.6
Other proceeds and payments	–0.9	–1.1	18.2
Free cash flow	–32.3	26.7	>–100

Working capital

Working capital rose by 15.1% to €84.6 million as of 31 December 2022 (previous year: €73.5 million). Trade receivables increased by 19.5% to €45.9 million (previous year: €38.4 million), while trade payables increased by 49.0% to €36.5 million (previous year: €24.5 million). The change is mainly due to the first-time consolidation of Haogenplast Ltd.

Working capital

€ millions	2022	2021	Change (%)
Inventories	75.2	59.6	26.2
+ Trade receivables	45.9	38.4	19.5
– Trade payables	36.5	24.5	49.0
Total	**84.6**	**73.5**	**15.1**

FINANCIAL POSITION

As of 31 December 2022, the KAP Group had total assets of €401.9 million, up 16.6% on the 2021 year-end level.

Due to the decision in the financial year to sell seven companies from the **flexible films** segment, which is to be completed in 2023, the corresponding assets and liabilities of these companies are reported separately under the item non-current assets and disposal groups held for sale.

Structure of the statement of financial position – assets

€ millions	2022	2021 Restated retrospectively[1]	Change (%)
Non-current assets	**208.8**	**217.2**	**–3.9**
Intangible assets	30.8	35.9	–14.2
Property, plant and equipment	173.6	174.9	–0.7
Investment properties	0.0	1.9	>–100.0
Other financial assets	0.4	0.2	100.0
Deferred tax assets	4.1	4.4	–6.8
Current assets	**143.4**	**126.9**	**13.0**
Inventories	75.2	59.6	26.2
Trade receivables	45.9	38.4	19.5
Income tax receivables	1.2	1.2	0.0
Other receivables and assets	11.3	10.3	9.7
Cash and cash equivalents	9.8	17.4	–43.7
Non-current assets and disposal groups held for sale	**49.7**	**0.5**	**> 100**
Total assets	**401.9**	**344.7**	**16.6**

[1] See note 7 in the notes to the consolidated financial statements as regards the retrospective restatement due to error.

On the assets side, non-current assets decreased by 3.9% to €208.8 million (previous year: €217.2 million). Intangible assets fell by 14.2% to €30.8 million (previous year: €35.9 million) owing to effects acting in opposite directions. Due to the acquisition of Haogenplast, they increased by €8.4 million as of 1 February 2022; this was offset by the reclassification of intangible assets totalling €13.7 million to non-current assets and disposal groups held for sale. Furthermore, an impairment loss of €3.0 million was recognised on the goodwill of the **flexible films** segment. Property, plant and equipment amounted to €173.6 million, relatively on a par with the previous year's level (previous year: €174.9 million). Purchase accounting for Haogenplast led to an increase in property, plant and equipment of €15.7 million. This increase was offset by the reclassification of assets held for sale in the amount of €17.4 million. The investment properties were sold in the reporting year (previous year: €2.0 million). Deferred tax assets decreased by 6.8% to €4.1 million (previous year: €4.4 million).

Current assets increased by 13.0% to €143.4 million (previous year: €126.9 million). This development was mainly due to the 26.2% increase in inventories to €75.2 million (previous year: €59.6 million), with Haogenplast accounting for a significant share of this increase (€18.8 million). The balance was reduced by reclassification of €11.0 million allocable to the disposal group. Trade receivables increased by 19.5% to €45.9 million (previous year: €38.4 million). Cash and cash equivalents decreased by 43.7% to €9.8 million (previous year: €17.4 million).

The non-current assets held for sale in the previous year comprised a small part of the commercial property in Fulda that had not yet been sold. The sale was effected in the past financial year. In the reporting year, the reported non-current assets and disposal groups held for sale relate to a group of entities in the **flexible films** segment that is to be sold.

Structure of the statement of financial position – equity and liabilities

€ millions	2022	2021 Restated retrospectively[1]	Change (%)
Equity	**176.9**	**185.3**	**–4.5**
Subscribed capital	20.2	20.2	0.0
Capital reserve	86.9	86.9	0.0
Reserves	14.0	12.6	11.1
Retained earnings	55.1	65.0	–15.2
Equity attributable to the shareholders of KAP AG	**176.3**	**184.7**	**–4.5**
Non-controlling interests	0.6	0.5	20.0
Non-current liabilities	**108.4**	**49.9**	**117.2**
Provisions for pensions and similar obligations	12.9	16.7	–22.8
Non-current financial liabilities	85.7	26.7	221.0
Deferred tax liabilities	9.4	6.5	44.6
Current liabilities	**104.5**	**109.5**	**–4.6**
Other provisions	13.8	17.4	–20.7
Current financial liabilities	31.9	43.1	–26.0
Trade payables	36.5	24.5	49.0
Income tax liabilities	7.6	7.6	0.0
Other liabilities	14.7	16.8	–12.5
Liabilities associated with discontinued operations	**12.2**	**0.0**	**> 100**
Total equity and liabilities	**401.9**	**344.7**	**16.7**

[1] See note 7 in the notes to the consolidated financial statements as regards the retrospective restatement due to error.

On the equity and liabilities side, equity decreased by 4.5% to €176.9 million (previous year: €185.3 million). Currency effects charged directly to equity totalled €–0.7 million (previous year: €3.9 million). The dividend distribution of €7.8 million decided and made in the reporting year had a negative impact. Non-current liabilities increased by 117.2% to €108.4 million (previous year: €49.9 million) due to the new financing structure based on the new syndicated loan with a term until April 2026. Provisions for pensions and similar obligations decreased by 22.8% to €12.9 million (previous year: €16.7 million), mainly due to changes in the calculation parameters. Non-current financial liabilities increased significantly to €85.7 million (previous year: €26.7 million). The increase in financial liabilities is attributable to the Haogenplast acquisition and the new syndicated loan. The old syndicated loan agreement expired in August 2022. As of the conclusion of the new syndicated loan agreement, the majority of associated financial liabilities are reported as non-current. Deferred tax liabilities amounted to €9.4 million and were thus up 44.6% year on year (previous year: €6.5 million).

Current liabilities decreased by 4.6% to €104.5 million (previous year: €109.5 million). Particularly as a result of lower guarantees and warranties, other provisions decreased by €3.6 million to €13.8 million (previous year: €17.4 million). Current financial liabilities decreased to €31.9 million (previous year: €43.1 million). Trade payables increased by 49.0% to €36.5 million due to increased business activities (previous year: €24.5 million). Other liabilities decreased by 12.5% to €14.7 million (previous year: €16.8 million).

OTHER NON-FINANCIAL INFORMATION

EMPLOYEES

The KAP Group had a total of 2,934 employees as of 31 December 2022 (previous year: 2,632 employees). The increase by 302 employees is mainly attributable to the **flexible films** segment on account of the acquisition of Haogenplast, Israel, and to the **surface technologies** segment.

In Germany, headcount increased by 24 to 1,278 employees as of 31 December 2022 (previous year: 1,254 employees). In the Rest of Europe region, the KAP Group had 1,117 employees (previous year: 1,097 employees). The number of employees in the North/South America region amounted to 156 (previous year: 102) and in the Asia region to 383 (previous year: 179). Germany is still the location where the largest proportion of our staff are employed. The trend towards internationalisation of the operating business, which had become apparent in previous years, continued in 2022. Accordingly, the percentage of employees in Germany decreased by 4.1 percentage points to 43.6% (previous year: 47.7%).

Selected key indicators on employees[1]

	2022	2021	Change (%)
By region			
Germany	1,278	1,254	1.9
Rest of Europe	1,117	1,097	1.8
North/South America	156	102	52.9
Asia	383	179	114.0
Total	**2,934**	**2,632**	**11.5**
By segment			
flexible films	516	375	37.6
engineered products	886	815	8.7
surface technologies	833	750	11.1
precision components	638	636	0.3
Other	**61**	**56**	**8.9**
Total	**2,934**	**2,632**	**11.5**

[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 competences 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 range 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 selected IT and electronics professions. Building on our subsidiaries' training programmes, we offer personal incentives such as financing apprenticeships to become a master craftsperson 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 bachelor's and master's dissertations in a range of topics. We also offer students the opportunity to gain valuable practical experience working with us while pursuing their studies.

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, customer groups and internal stakeholder groups. This is an important prerequisite for the long-term success of our Company. We attach great importance to a climate where diversity is valued 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, people from 39 different countries work for us.

The percentage of women in the total workforce is around 34%. Particularly the proportion of women in the technical and scientific jobs that are important for us is too low, however. The percentage of women executives is around 29%. Women are represented at the level below senior management in almost all our companies and locations worldwide. They mostly work in commercial positions as well as in sales and quality management.

Healthcare and occupational health and safety

We promote the health and safety of our employees through our 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 workforce and to reduce the risks that can arise from daily work and the working environment. This way, we can reduce absences by preventive means and promote our employees' health. 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. This way, we ensure that we can take measures and mitigate existing and potential hazards by preventive means based on analyses of each individual accident. Taking a holistic approach to health promotion, we consider not only physical stress, but also mental health.

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 on a mobile basis as far as possible. 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 REPORTING PERIOD

With regard to events after the reporting period, we also refer to the information under note 44 "EVENTS AFTER THE REPORTING PERIOD" in the consolidated financial statements.

FORECAST, OPPORTUNITY AND RISK REPORT

FORECAST REPORT

INTRODUCTION

All information provided in the forecast report relates to the 2023 financial year unless otherwise noted and represents our own estimations and expectations. The forecast takes account of our expectations for the further development of 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. Subject to a high degree of uncertainty, the further repercussions of the currently prevailing situation for the economy as a whole and the KAP Group are already reflected in the forecast. The currently unforeseeable consequences of an intensification in the Russia-Ukraine war are not taken into account in the forecast and may subsequently alter it.

ECONOMIC EXPECTATIONS

In its outlook published in January 2023, the International Monetary Fund (IMF) expects growth to slow significantly year on year and to be well below the historical average. In particular the effects of the Russia-Ukraine war and of inflation, as well as tighter financing conditions as a result, continue to weigh on global economic activity. International central banks are already seeking to counter inflation by raising interest rates significantly. While business investment is subdued worldwide by these circumstances, inflation is having a negative impact on consumers' purchasing power. On aggregate, IMF experts project global economic growth of 2.9% for 2023.

For the euro area, the IMF expects growth in gross domestic product (GDP) of 0.7% for 2023. Due to its geographic proximity and high dependence on Ukraine and Russia for energy and raw materials, the euro area is impacted particularly by the war.

For Germany, the IMF expects the economy to stagnate in 2023. GDP is projected to increase by 0.1%. Supply-side shocks for energy, intermediate products and labour present major challenges to Germany's economy. The ifo experts forecast that, following a recession at the start of the year, Germany's economy will recover again more strongly in the second half of the year when incomes rise to a greater extent than prices.

For the United States, the IMF's economists forecast that growth will slow to 1.4% in 2023 compared with the previous year. Geopolitical measures as well as the global economy cooling off as a whole are weighing on growth in the world's largest economy.

More stable growth in 2023 compared with that seen in 2022 is projected by IMF experts for emerging market and developing economies. Accordingly, economic output is expected to rise to 4.0% in these economies in the current year.

OVERVIEW OF ECONOMIC FORECASTS

Economic environment[1]

Real change in GDP (%)	2022	2023
World	3.4	2.9
Euro area	3.5	0.7
Germany	1.9[2]	0.1
USA	2.0	1.4
Emerging economies	3.9	4.0

[1] International Monetary Fund (IMF) – World Economic Outlook Update, January 2023.
[2] Destatis, press release of 13 January 2023.

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 an increase of 4% in unit sales on the global passenger car market in 2023. Global unit sales of 74 million units would represent a further recovery, albeit still 8.2% below the pre-crisis level of 2019 and 12.4% below the record year for the global passenger car market of 2017. The markets in the United States and Europe are forecast to recover only marginally from the negative development seen in 2022 according to the VDA, which projects growth rates of 4% for the United States and of 5% for Europe. China is also expected to grow by just 3% in 2023, continuing the high-level growth trend of previous years, however, which means the Chinese market would already be 12.3% above the pre-crisis level of 2019 again in 2023. The German market is expected to grow 2% according to the VDA. Since it contracted in 2020 and 2021, the German market has therefore hardly recovered and remains a quarter below its pre-crisis level. After 13% growth in 2022, German manufacturers' domestic production is forecast to increase by a further 6% in 2023. At 3.7 million vehicles, it is also still significantly behind the number of vehicles produced in 2019, of 4.7 million, but nevertheless higher than the growth rate for the global passenger car market. The production volume of passenger cars outside Germany by brands belonging to German automotive groups is projected to increase by 6% as well to a total of 10.3 million passenger cars manufactured in 2023.

According to the VDA, the German market for electric vehicles will face a downturn in 2023. After registrations reached a new record level in December 2022 on account of anticipatory effects, subsidy programmes for plug-in hybrids (PHEVs) expired before the start of the new year. Subsidies for battery-electric vehicles (BEVs) were also scaled back as of year-end 2022. For PHEVs, the VDA projects a total of 255,000 units to be sold in 2023. This is 30% less than in the previous year. By contrast, registration numbers for BEVs are expected to rise by 8% to a total of 510,000 units. For the market as a whole (BEVs and PHEVs), the VDA accordingly forecasts 765,000 units to be registered in 2023, 8% less than in the previous year.

Following the downturn seen in 2022, Germany's construction sector is likely to face a further dip in the current year due to rising construction costs and tighter financing conditions, according to the German Institute for Economic Research (DIW Berlin). Whereas, on the one hand, the situation is likely to ease somewhat with respect to supply chains and prices for materials, on the other hand, economic uncertainty and high interest rates will impact construction activity negatively. On aggregate, construction volume is expected to decrease by 1.9% in 2023 after adjusting for inflation. Construction activity is likely to be higher again in 2024, according to DIW Berlin.

FUTURE DEVELOPMENT OF THE KAP GROUP

For the 2023 financial year, we plan to continue to step up the pace and systematically implement the milestones defined as part of our Accelerate strategy programme. We want to develop our segments accordingly through targeted investments and optimisation measures. The clear focus until the end of 2023 is increasing profitability. We aim to achieve a target operating margin, measured on the basis of normalised EBITDA, of at least 10% in all segments.

OVERALL STATEMENT OF THE MANAGEMENT BOARD ON THE FORECAST FINANCIAL PERFORMANCE FOR 2023

For the 2023 financial year, we expect the KAP Group's business performance to be still notably influenced by the highly challenging market environment. Given our diversified investment model and the good market positioning of our segments in their niche markets, and despite an uncertain market environment, we expect revenue for the KAP Group – excluding the companies for which a sale agreement was concluded on 6 March 2023 – to increase slightly year on year[1] and normalised EBITDA to be slightly above the previous year.[1] For all segments, we also anticipate a slight year-on-year increase in revenue and normalised EBITDA. Only in the **engineered products** segment do we expect normalised EBITDA to fall slightly compared with the previous year. This is because a major customer contract in the segment is expiring.

The forecast does not include the companies for which a sale agreement was concluded on 6 March 2023. The operating entities to be divested are CaPlast Kunststoffverarbeitungs GmbH with its investee AerO Coated Fabrics B.V. and NOW Contec GmbH & Co. KG. These entities all belong to the **flexible films** segment.

Our overall assessment takes account of the foreseeable effects on the KAP Group's business development as a result of the supply chain disruptions and the Russia-Ukraine war. Additional effects resulting from the supply chain disruptions and the Russia-Ukraine war that were not yet specifically estimable at the time of preparing this report may subsequently change the forecast.

[1] In the previous year, excluding the entities for which a sale agreement was concluded on 6 March 2023, revenue amounted to €360.1 million and normalised EBITDA to €23.5 million.

OPPORTUNITY AND RISK REPORT

RISK MANAGEMENT SYSTEM

As an internationally operating industrial group, the KAP Group is exposed to numerous internal and external developments and events. We want to identify the associated risks at an early stage and take the measures necessary in the areas affected in good time so we can sustainably increase the value of the Group. We support this overarching goal through 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 cash flows and financial performance or the reputation of the Group.

We cover strategic, operational and financial risks as well as compliance and climate risks in 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 in our segment companies, risk management officers regularly review relevant processes, procedures and developments for existing risks and record these on the basis of a defined risk catalogue. This gives us the flexibility to identify and assess risks at an early stage and take consistent action on them. We essentially classify risks 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 normalised 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 normalised EBITDA) of the potential risk:

Classification of risks

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

A central system is used for the calculation, which applies a risk aggregation model to calculate aggregated effects and correlations and obtain the Group's global risk position. This system can generate risk reports. This means that we have a detailed overview of 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 year-end reporting using consistently 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 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 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 are required to report immediately 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 related to the accounting process in the Group (ICS) is an integral part of corporate governance. The purpose of the ICS is to implement controls to provide reasonable assurance that the KAP Group's internal accounting and external financial reporting is always in compliance with the rules and reasonable assurance 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 uniform application of the International Financial Reporting Standards (IFRSs) throughout the Group. 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 incorporate 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. As a result, we are able to initiate targeted measures for smooth implementation even before the regulations come into force. Intensive and early training of the employees responsible for preparing internal and external financial reporting is an important measure in this respect. These ad hoc training sessions supplement our ongoing training programme and the additional individual support provided to our subsidiaries by a professionally qualified contact at 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 at the individual subsidiaries. We largely rule out inconsistencies in the figures through smart plausibility checks. We ensure compliance 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, are organisational factors contributing 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 transactions for the supply of goods and services.

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 hedges of an underlying transaction that has already been recognised (fair value hedge). The risk is monitored continuously. Counterparties are always domestic and foreign banks with impeccable credit ratings. No financial instruments were used in 2022.

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 on previous period
Strategic risks		
Political, regulatory and legal conditions	Medium	=
Corporate governance	Low	=
Portfolio risks	Low	=
Environmental and climate risks	Low	=
Company-specific risks		
Sales and marketing	Medium	=
Production and materials management	Medium	=
Personnel	Low	=
IT/organisation	Low	=
Financial risks		
Liquidity and credit risk	Low	=
Interest rate risk	Medium	>
Currency and inflation risk	Medium	=
Compliance risks		
Legal risks	Low	<

< improved = unchanged > worse

Strategic risks

Political, regulatory and legal conditions

The operating development of our segment companies is dependent on the development of the macroeconomic environment. We reduce our dependence on the development of individual industry 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. Our high level of specialisation and strong market position within attractive niches reduce the general economic risk for our segments without being able to completely eliminate it. In addition, effects of political conflicts between China and the United States and between Russia and Western countries and from the Russia-Ukraine war are evident. 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 implementation in detail of these requirements. We minimise the risk of deviating from our plans and undesirable developments in individual segments and segment companies through 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 based on 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 realising the investments. The measures described are interconnected. This gives us an overview of the aggregate portfolio risks arising from the individual segments' risk position.

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 and climate risks

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

The operating processes of the KAP Group's segment companies in particular are associated with risks that could impact the environment and the climate. In addition, there is a risk that key 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 and mitigate climate change. Corresponding organisational units at the respective company sites ensure compliance with the applicable laws and regulations and continuously identify further technical means for limiting environmental and climate risks. One action area, for example, is improving the energy efficiency of production facilities. Energy certification in accordance with ISO 50001 has been obtained at some company sites. Nevertheless, it cannot be fully ruled out that the Group's operations may lead to environmental damage or that modernisation projects may 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 reporting year, we already generated 69.3% 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 major customers by intensifying our sales and development activities, which enable us to open up new product groups and fields of application and tap into new markets and customer groups. As of 31 December 2022, 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 Russian war in Ukraine and the pandemic as well as supply chain bottlenecks during the year led to a decrease in revenue for some companies. This resulted from the fact that, as a supplier in the automotive sector, we also typically have framework agreements with variable call-off quantities, meaning that uncertainties in revenue planning are unavoidable. We handle these uncertainties by means of suitably flexible production planning.

Production and 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. 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. The effects of the Russian war in Ukraine and of the COVID-19 pandemic led to supply shortages and associated rising price for some raw materials in the reporting year. Considering the respective market situation, we endeavour to pass on the costs arising from increased purchase prices to our customers. In addition, as far as possible, we transfer materials management risks to our customers through different contract lengths and appropriate contract clauses. As the global economy improves, shortages 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 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. Occasionally, we rely on single-source suppliers. We attempt to counter supply risks here through higher stockkeeping levels.

The Russian war in Ukraine that began at the end of February 2022 directly affected the **precision components** segment's **production activities** in Belarus. The KAP Group was directly, but also indirectly, affected by disruptions to supply and production on account of the war. After one year of war, a risk of higher costs persists, particularly for items such as energy and raw materials, along with a risk of considerable raw material shortages, of disruption in supply chains for goods at customers and suppliers, a risk of destruction of 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 will depend largely on the future course of the war in Ukraine. These are continuously monitored by the Management Board, which has proactively developed contingency plans for various scenarios to the extent possible.

In the **surface technologies** 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. Competition has also intensified significantly for personnel in production and production-related areas, where we are in competition in particular with other local employers. 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 support our employees in the Group and in our segment companies. For example, we cooperate with schools, universities of cooperative education and universities and offer a wide range of traineeships and student placements 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 financing apprenticeships to become a master craftsperson or technician. Other measures include increased training opportunities in the industrial-technical sector. Another important factor in limiting personnel risks is the establishment and development of a modern and respectful corporate culture within KAP and its individual segment companies. Further measures include raising awareness of the Company as a local employer and increasing its attractiveness as an employer by improving working conditions and offering a wide variety of fringe benefits. We can counter short- or medium-term economic fluctuations and fluctuations in demand primarily using options such as reducing flexitime accounts, reducing working hours under wage subsidy programmes, 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 physical and IT access controls. Moreover, our employees are made aware of and received training on cyber risks. The risk of cybercrime has recently risen considerably. Hacker attacks are becoming increasingly frequent and sophisticated. IT security is therefore one of the key topics where the KAP 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 involving credit risk only with banks of good credit standing. In addition, we use a fixed group of six banks (as of 31 December 2022) 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 settle 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 2022, the KAP Group had cash and cash equivalents of €10.8 million and lines of credit totalling €162.8 million, from which we had drawn €94.8 million. With the exception of our locations in China, India, Israel 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 derived 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 working capital and continuously monitor the relevant factors influencing it 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 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 2022 financial year, all criteria set out in the covenants were satisfied.

Interest rate risk

Our financing consists overall of a balanced mix of short- and long-term financing instruments. For long-term purposes we use redemption loans and for short-term purposes we use traditional overdraft facilities, which are tied into the syndicated financing for the most part. Euribor is largely used as the base rate, although there is a floor in the event of negative Euribor. Changes in market interest rate thus lead to higher interest rates payable and therefore mean a corresponding interest rate risk. This risk is actively managed by our Treasury department. We did not use derivative instruments to hedge this risk in the reporting year.

Currency and inflation risk

Due to our segment companies' international business activities, we are exposed to risks from fluctuations in exchange rates. In the 2022 financial year, we conducted a significant proportion of our business with customers in the U.S. dollar zone, accounting for a 13.1% share of the KAP Group's revenue. We also conducted 10.0% of our business in the Asia region in Indian rupees and Chinese yuan. We minimise the exchange rate risks of these currencies against the euro by implementing U.S. dollar cash pooling and through natural hedging. As in previous years, we did not have to manage and reduce the risk through derivatives or other currency hedging transactions in the 2022 financial year. Other significant risk factors for KAP AG's business activities in the 2023 financial year potentially include the current high level of inflation, the change in interest rate policy initiated by central banks and, in turn, a possible further decline in demand on global markets. Although reputable economic research institutes do not expect a recession, they do anticipate continued weak global economic growth with easing, yet still high inflation.

Compliance risks

The KAP Group's compliance management system focuses 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. 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. 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 effectiveness 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 preventing the occurrence of potential reputational risks as far as possible. 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 and implement other relevant measures in the Group's entities.

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 mitigate risks that could arise from warranty and product liability claims by means of efficient contract and quality management and reflect the risk in our statement of financial position by recognising provisions. As of 31 December 2022, we recognised provisions totalling €13.4 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. When we develop products or applications jointly with our customers, or in our role as a Tier-2 supplier, there is no need to apply for trademark protection measures.

Overarching risks

Macroeconomic risks may arise from the course of the COVID-19 pandemic and/or the Russia-Ukraine war 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. The Management Board has therefore proactively developed contingency plans for various scenarios to the extent possible and is continuously monitoring the further course of the war and the pandemic.

OPPORTUNITY MANAGEMENT

Our business success is significantly influenced by our ability to identify opportunities at an early stage and develop targeted measures to take 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 cash flows, financial performance or reputation of the Group.

To identify opportunities at an early stage, we use various market monitoring 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. Based on 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 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 lie in particular in the systematic implementation of our segment strategy as well as targeted M&A activities. 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 COVID-19 pandemic. The development of new products and new markets may lead to better profitability for some companies in the KAP Group that are taking advantage of these new opportunities. The strategic focus is particularly on future-oriented fields such as environmental protection, climate action, energy efficiency or e-mobility, which are relevant for all major 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 knowledge sharing 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 develop our segments further both through suitable internal measures and through targeted expansion based on M&A activities. Based on past experience, we deem these opportunities likely. Likewise, opportunities may 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 extrinsically.

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 review of all material opportunities, individual risks and superordinate risk categories. At the time of publication of this report, the Management Board was not aware of any identifiable individual or aggregate risks that could jeopardise the KAP Group's ability to continue as a going concern.

Depending on the further course of the Russia-Ukraine war, macroeconomic risks may arise that could lead to stagnation or a renewed marked decline in global economic growth. Resulting risks for the KAP Group may adversely affect the development of revenue, earnings and, in particular, liquidity and may cause, for instance, a marked negative impact on production and the procurement market. If the sales situation in all important markets worsens again as a result of the impact of the Russia-Ukraine war, further consequences for revenue and earnings as well as upstream and downstream processes could emerge, of which neither the duration nor the scale can be predicted at present. KAP AG continues to monitor the situation very carefully in order to quickly take mitigating measures if necessary.

The Russia-Ukraine war that began at the end of February 2022 directly affected the **precision components** segment's production and delivery capabilities in Belarus. The war may continue to 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 shortages, of supply chain disruptions at customers and suppliers, of loss of assets due to trade sanctions and destruction (in Belarus) and of 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 Russia-Ukraine war and related sanctions: In this regard, the Management Board has proactively developed contingency plans for various scenarios to the extent possible. It is continuously monitoring the further course of the war and will review foreseeable changes in the strategic 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 relating to the risks described.

There are currently no foreseeable risks that could jeopardise KAP AG's ability to continue as a going concern.

KEY FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Internal control system (ICS) and risk management system (RMS)

Our ICS and RMS are based on the principles, policies and measures introduced by the Management Board, which are aimed at the organisational implementation of the Management Board's decisions. The systems encompass the management of risks and opportunities relating to the achievement of business targets, the adequacy and reliability of internal accounting and external financial reporting, and compliance with the legal rules and regulations of relevance for KAP. This also includes sustainability aspects, which are continuously updated on the basis of regulatory requirements.

Our ICS and RMS are based on the globally recognised COSO framework (Committee of Sponsoring Organisations of the Treadway Commission). The framework links the RMS process to our financial reporting and ICS. The two systems complement each other.

All KAP Group entities are integrated in our ICS and RMS. The scope of activities to be performed is the same for all companies. Management of each segment is required to implement an appropriate and effective ICS and RMS in their area of responsibility based on the mandatory group-wide policy.

Overall responsibility for our ICS and RMS lies with the Management Board. KAP's internal audit function consolidates and integrates internal control and RMS reporting and supports the Management Board in designing and maintaining appropriate and effective processes for implementing, monitoring and reporting internal control and RMS activities. The central internal audit function is responsible for monitoring and coordinating processes to ensure an appropriate and effective ICS and RMS within the Group.

Our ICS and RMS, and their supporting elements, are regularly within the scope of assurance activities by our internal audit function. The processes in the audit scope are reviewed for existing internal controls and an assessment is made as to whether these are sufficient, strong and appropriate. The audits are carried out either as part of the annual audit plan derived based on risk or as part of audits scheduled during the year on request. Twice a year, the implementation of action plans and measures is verified. Monitoring results are presented to the Management Board and the audit committee annually in the case of the ICS and quarterly for the RMS.

Our Management Board assesses the adequacy and effectiveness of the ICS and RMS at the end of each financial year. This assessment is primarily based on a report submitted quarterly to the Management Board. The purpose of the report is to provide an overview of the key elements of the ICS and RMS of KAP AG and its affiliated entities as of the end of the financial year, to summarise the activities performed in reviewing their adequacy and effectiveness and to highlight any critical control weaknesses identified as part of these activities. The information contained in the report is submitted to the audit committee of KAP AG's Supervisory Board as a report on the effectiveness of the ICS and RMS. Based on the report, the Management Board has no indication that our ICS or RMS were not adequate or effective in their respective entirety as of 31 December 2022.

Notwithstanding this, there are inherent limitations to the effectiveness of any risk management and control system. No system – even if it has been assessed as appropriate and effective – can guarantee, for example, that all risks that actually occur will be discovered in advance or that all breaches of processes will be ruled out under all circumstances.

The audit committee is involved in our ICS and RMS. In particular, it monitors the financial reporting and the accounting process as well as the adequacy and effectiveness of the ICS, the RMS, and internal auditing.[1]

Compliance management system (CMS)
The ICS and RMS also include a CMS that is aligned to the Company's risk situation.

KAP's CMS is grounded on three pillars: prevent, detect and respond. It covers in particular the legal risk areas of anti-corruption and prevention of bribery, antitrust law, sanctions and export control, data protection and IT compliance. The CMS aims to ensure that the compliance-related systems and processes applied worldwide are adhered to and implemented. It is based on an extensive internal set of rules. As an important component of our CMS, which we have introduced throughout the Group, we have established a dedicated code of conduct for our employees. It defines the basic principles and tenants of conduct that must be observed by all employees of the KAP Group for cooperation within our company, with our business partners and with the public.

In addition, there are extensive internal compliance regulations, including associated controls, which require all KAP staff to ensure that the CMS is implemented. They contain topic-specific implementation provisions for the individual risk areas with regard to compliance processes and controls, together with additional guidelines and instructions.

The CMS aims to identify compliance risks at an early stage, thus enabling appropriate as well as effective measures to be taken to avoid or minimise risks. Risk assessment is also integrated into individual business processes and tools. The findings of the CMS of relevance for the Group are taken into consideration as part of the company-wide RMS.

As part of our ICS, we continuously develop the CMS, regularly review and monitor processes and controls, and adapt the system to current KAP guidelines. We aim to ensure observance and implementation of the globally applied CMS and processes in the KAP Group. In addition, current compliance issues are regularly discussed at management level.

The entire CMS is continuously adapted to business-specific risks and local legal requirements. The findings from compliance risk management and compliance controls and audits are used to derive measures for the further development of the CMS.

[1] The Management Board's assessment of the appropriateness and effectiveness of the internal control and risk management system is in accordance with the German Corporate Governance Code (GCGC) and goes beyond the statutory requirements for the management report. The disclosure is therefore not covered by the auditor's review of the content of the management report.

Description of the key features of the accounting-related ICS and RMS

The overriding objective of our accounting-related ICS and RMS – as part of the overarching ICS and RMS – is to ensure the compliance of financial reporting in the sense of ensuring that the consolidated financial statements and the combined management report of the KAP Group as well as the separate financial statements of KAP AG, as the parent company, comply with all relevant regulations.

Our ICS and RMS are based on the globally recognised COSO framework (Committee of Sponsoring Organisations of the Treadway Commission).

Our management assesses the adequacy and effectiveness of the accounting-related ICS at the end of each financial year. For this purpose, KAP has a standardised procedure according to which necessary controls are defined, documented according to uniform specifications and regularly checked for their effectiveness. Notwithstanding this, there are inherent limitations as regards the effectiveness of any control system. No control system – even if judged effective – can prevent or detect all misstatements.

Our consolidated financial statements are prepared on the basis of a centrally defined conceptual framework. This essentially comprises uniform requirements in the form of accounting guidelines and a chart of accounts. For KAP AG and other KAP Group companies reporting in accordance with IFRS, mandatory IFRS-specific regulations supplement this conceptual framework. It is continuously analysed whether an adjustment of the conceptual framework is required due to changes in the regulatory environment. On a quarterly basis, the accounting departments are informed about current topics and deadlines to be met that affect accounting and the financial reporting close process.

The financial reporting data of KAP AG and its subsidiaries forms the data basis for preparation of our financial statements. In addition, other accounting activities, such as governance and monitoring activities, are generally pooled at regional level. In certain cases, such as the measurement of post-employment benefits, we use the support of external service providers. The financial statements are prepared in the consolidation system on the basis of the reported financial statement information. The steps taken in preparing the financial statements are subject to manual as well as system controls.

Appropriate selection processes and training ensure that the employees involved in the accounting process are qualified. Taking materiality considerations into account, the “dual control principle” applies as a rule; in addition, financial statement information must undergo certain approval processes. Other control mechanisms include variance analyses and analyses of the composition of and changes to individual items, both in the financial statement information reported by Group units and in the consolidated financial statements. To protect against unauthorised access, access authorisations are defined in the accounting-related IT systems in accordance with our information security regulations.

CONDENSED MANAGEMENT REPORT OF KAP AG

BASIS OF PREPARATION

KAP AG is the parent company of the KAP Group. As a capital market-oriented corporation within the meaning of section 264d of the German Commercial Code (HGB), KAP AG qualifies as a large corporation within the meaning of section 267 (3) sentence 2 HGB. KAP AG acts as the Group's holding company. Besides holding the equity investments, it assumes the overarching functions of strategic corporate development and the further development and establishment of segment strategies. In addition, it performs central functions in the areas of investment controlling, corporate governance, investor relations, finance, treasury, legal, HR, compliance, sustainability and administration. KAP AG receives income from its subsidiaries' profit transfers and distributions, which depends on the earnings actually generated by the subsidiaries. The management report of KAP AG and the group management report have been combined in accordance with section 315 (5) HGB in conjunction with section 298 (2) HGB.

BUSINESS PERFORMANCE

KAP AG's business performance essentially corresponds to that of the Group and is described in detail in the ECONOMIC REPORT section. KAP AG's earnings as determined in accordance with the German Commercial Code are mainly influenced by the course of business and the profit or loss of its affiliated entities. These factors are reflected above all in the income from profit transfer as well as in currency effects, allocations and the interest result. The key financial performance indicators for KAP AG as a single entity are earnings before taxes and retained earnings, which are used to ensure the Company's ability to pay dividends on an ongoing basis. Accordingly, KAP AG monitors and optimises the ability of its subsidiaries to distribute profits. This aspect is of particular relevance as adjusted consolidated profit or loss is the key figure for the amount of the dividend paid to shareholders. KAP aims to distribute an attractive dividend. Earnings before taxes (EBT) came to €–3.2 million in the reporting year (previous year: €66.3 million). Earnings before taxes were significantly weaker than forecast, mainly due to lower income from profit transfers and write-downs on financial assets.

PRESENTATION OF THE FINANCIAL POSITION, CASH FLOWS AND FINANCIAL PERFORMANCE OF KAP AG

FINANCIAL POSITION

Structure of the statement of financial position

€ millions	2022	2021	Change (%)
Non-current assets	**156.3**	**171.1**	**–8.6**
Intangible assets and property, plant and equipment	0.2	0.1	100.0
Financial assets	156.1	171.1	–8.8
Current assets	**163.4**	**130.2**	**25.5**
Receivables from affiliated entities	162.5	118.9	36.7
Other assets and prepaid expenses	0.5	1.1	–54.5
Cash and cash equivalents	0.4	10.2	–96.1
Assets	**319.7**	**301.3**	**6.1**
Equity	**167.2**	**177.7**	**–5.9**
Provisions	**7.9**	**7.9**	**0.0**
Liabilities	**144.6**	**115.7**	**25.0**
Liabilities to banks	75.2	46.9	60.3
Liabilities to affiliated entities	68.6	68.5	0.1
Trade payables and other liabilities	0.8	0.3	166.7
Equity and liabilities	**319.7**	**301.3**	**6.1**
Equity ratio	**52.3%**	**59.0%**	**–6.7pp**
Return on equity	**–1.6%**	**33.5%**	**>–35.1pp**

Total assets increased by 6.1% to €319.7 million in the reporting year (previous year: €301.3 million).

The change in total assets is mainly attributable to higher receivables from affiliated entities (up 36.7% to €162.5 million). An amount of €48.0 million of the increase resulted from higher cash pooling receivables from Mehler AG. In contrast, non-current assets decreased, mainly due to impairment losses on financial assets totalling €13.7 million. Cash and cash equivalents decreased by €9.8 million compared with the previous year, primarily due to dividend distributions.

On the equity and liabilities side, liabilities increased by 25.0% to €144.6 million in particular on account of the Haogenplast acquisition. Liabilities to banks increased due to a new syndicated loan from April 2022 with a term until 2026.

Equity decreased by 5.9% over the same reporting period from €177.7 million to €167.2 million. Trade payables and other liabilities doubled to €0.8 million.

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

CASH FLOWS

Development of net debt

€ millions	2022	2021	Change (%)
Non-current financial liabilities	66.3	6.7	>100
+ Current financial liabilities	8.8	40.1	–78.1
Financial liabilities	75.2	46.8	60.7
– Cash and cash equivalents	0.4	10.2	–96.1
Net debt	74.8	36.6	>100

KAP AG's cash inflows mainly stem from the subsidiaries' direct or indirect profit distributions.

The objective of KAP AG's financial management is to ensure liquidity for every entity in the Group at the lowest possible cost at all times. While not possible for every foreign entity, as many entities as possible are integrated in the central cash pooling system in order to optimally manage liquidity flows. To optimise its financing in the long term, in the 2022 financial year KAP AG concluded a loan agreement with a total credit facility of €125.0 million and an acquisition line for a further €50.0 million subject to approval of the banks. The agreement has a minimum term of four years and can be prolonged twice by one year at a time. It gives KAP AG sufficient funds and flexibility to be able to ensure the KAP Group's liquidity at all times. The interest rates depend on the net debt to EBITDA ratio and are between 1.80% and 2.85% plus Euribor, unless Euribor is negative.

The Company's cash flows deteriorated year on year in the reporting year. Cash at banks fell by 96.1% to €0.4 million. At the same time, liabilities to banks rose by 60.3% to €75.2 million. Funds are largely invested in the subsidiaries' ongoing business activities within the framework of Group financing. In addition to the refinancing of the Haogenplast acquisition by Mehler AG, the rise resulted from increased business activity and higher working capital at the subsidiaries due to the uncertainty prevailing in procurement markets.

There were no incidents that had a sustainable impact on the Company's cash flows. Our banks' lines of credit are sufficient. Of the lines of credit, €53.8 million had not been drawn down as of the reporting date (previous year: €74.8 million).

FINANCIAL PERFORMANCE

Selected key indicators on financial performance

€ millions	2022	2021	Change (%)
Revenue	2.1	1.7	23.5
EBITDA	–2.7	–6.4	57.8
Operating result (EBIT)	–2.8	–6.5	56.9
Financial result	0.7	72.8	–99.0
Earnings before taxes (EBT)	–2.1	66.3	>–100
Profit/loss for the year after taxes	–2.7	59.5	>–100

The operating result improved by 56.9% to €–2.8 million (previous year: €–6.5 million). This is largely due to lower operating expenses coupled with higher revenue. 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 decreased sharply from €72.8 million to €0.7 million. It includes income from profit and loss transfer agreements, which decreased to €29.3 million (previous year: €85.5 million). The sharp decline in income is mainly due to the fact that income from the reversal of impairment losses of €46.0 million had a positive impact on the financial result in the previous year, whereas there was no income from the reversal of impairment losses in the reporting year. Expenses from loss absorption increased from €11.3 million to €15.6 million in the reporting year, mainly due to the more difficult global economic situation than in the previous year. Earnings deteriorated further on account of the impairment losses on equity investments of €13.7 million (previous year: €2.6 million), identified in the course of impairment testing.

OVERALL STATEMENT OF THE MANAGEMENT BOARD

OPPORTUNITY AND RISK REPORT

KAP AG acts as the KAP Group's holding company. Its development as well as its risks and opportunities are therefore largely dependent on the business performance of the Company's affiliated entities. KAP AG is integrated into the group-wide OPPORTUNITY AND RISK REPORT. For detailed information, we refer to the section on the Group's opportunity and risk management. The description of the internal control system for KAP AG required by section 289 (4) HGB is also provided there.

KAP AG generates its income from profit transfers and income from equity investments from its direct and indirect subsidiaries. As a result of its holding function, KAP AG is therefore exposed to the risk of receiving lower income from equity investments should the profits of its subsidiaries decline. If the subsidiaries' profits increase, KAP AG obtains higher income from equity investments.

Due to the solid cash flows of the entities in the KAP Group and its ability to control profit distributions from the subsidiaries, the opportunities and risks relating to income from equity investments are deemed possible with a moderate impact on earnings.

FORECAST AND OUTLOOK

As a result of developments at our subsidiaries, we expect KAP AG's financial position, cash flows and financial performance to be positive in the future as well. The development of profit/loss is also dependent on the intensity of M&A activities, associated consulting fees and the impact of the Russia-Ukraine war.

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 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 2022 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 www.kap.de/en/company/vision-values/sustainability.

TAKE-OVER RELEVANT INFORMATION 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 SUBSCRIBED CAPITAL

As of 31 December 2022, the Company's share capital amounted to €20,195,663.80, divided into 7,767,563 no-par value bearer shares with a nominal value of €2.60 each. Each share grants the holder 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 exoneration 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 2022 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 2022, the following direct and indirect shareholdings in KAP AG exceeding the threshold of 10% of the voting rights existed: Project Diamant Bidco GmbH (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 note 47 "RELATED PARTIES" of the notes to the consolidated financial statements on page 133. 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 Company's Management Board consists of two or more members. The number is determined by the Supervisory Board.

Pursuant to section 119 (1) no. 6 and section 179 (1) sentence 1 AktG, the Articles of Association may only be amended by resolution of the Annual 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 Annual 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.

DECLARATION PURSUANT TO SECTION 312 AKTG

Our company has made the following declarations in the report on relations with affiliated companies in accordance with the circumstances known to us at the time the legal transactions were carried out, our company received received appropriate consideration for each legal transaction.

POWERS OF THE MANAGEMENT BOARD TO ISSUE OR REPURCHASE TREASURY SHARES

Pursuant to Article 4 (4) of the Articles of Association, KAP AG's Management Board was authorised, with the approval 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 nominal value of €2.60, in return for contributions in cash and/or in kind (Authorised Capital 2017). Shareholders were generally to be granted subscription rights. However, with the approval of the Supervisory Board, the Management Board was authorised to exclude such subscription rights 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 authorised capital expired on 7 July 2022 and was not renewed.

The Annual General Meeting on 30 September 2021 authorised the Company to acquire, until 29 September 2026, treasury 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 2022, 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 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

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2022

in € thousands	Note	2022	2021
Revenue	(28)	**433,469**	**345,617**
Change in inventories and other own work capitalised		6,880	6,830
Total operating performance		**440,349**	**352,447**
Other operating income	(29)	28,776	47,081
Cost of materials	(30)	–257,815	–193,252
Personnel expenses	(31)	–103,216	–87,031
Amortisation and impairment of intangible assets and depreciation and impairment of property, plant and equipment and investment property	(32)	–36,879	–25,151
Other operating expenses	(33)	–64,588	–62,668
Operating result		**6,627**	**31,426**
Interest result	(34)	–3,760	–2,530
Other financial result	(35)	–1,658	–604
Financial result		**–5,418**	**–3,134**
Earnings from continuing operations before income taxes		**1,209**	**28,292**
Income taxes	(36)	–3,934	–6,640
Earnings from continuing operations		**–2,725**	**21,652**
Earnings from discontinued operations after taxes	(18)	1,037	18,205
Consolidated profit/loss after taxes		**–1,688**	**39,857**
Non-controlling interests	(37)	–37	–14
Consolidated profit/loss attributable to the shareholders of KAP AG		**–1,725**	**39,843**
Basic earnings per share (€)	(38)		
Earnings from continuing operations		–0.35	2.79
Earnings from discontinued operations		0.13	2.35
		–0.22	**5.14**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2022

in € thousands	2022	2021
Consolidated profit/loss after taxes	**–1,688**	**39,857**
Unrealised gains (+) and losses (–) from currency translation	–687	3,853
Items that may be reclassified subsequently to profit or loss	**–687**	**3,853**
Actuarial gains from defined benefit pension plans	3,024	635
Deferred taxes on actuarial gains/losses from defined-benefit pension plans	–907	–191
Items that will not be reclassified subsequently to profit or loss	**2,117**	**444**
Other comprehensive income after taxes	**1,430**	**4,297**
thereof attributable to the shareholders of KAP AG	1,430	4,297
Total comprehensive income	**–258**	**44,154**
thereof attributable to non-controlling interests	37	14
thereof attributable to the shareholders of KAP AG	–295	44,140

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE PERIOD ENDED 31 DECEMBER 2022

in € thousands	Note	31/12/2022	31/12/2021 restated retrospectively[1]	1/1/2021 restated retrospectively[1]
ASSETS				
Non-current assets				
Intangible assets	(8)	30,782	35,867	27,840
Property, plant and equipment[1]	(9)	173,571	174,909	152,459
Investment properties	(10)	–	1,888	1,961
Other financial assets		384	196	231
Deferred tax assets	(12)	4,087	4,365	5,311
		208,824	**217,225**	**187,801**
Current assets				
Inventories	(13)	75,218	59,597	42,822
Trade receivables	(14)	45,921	38,435	43,347
Income tax assets	(15)	1,243	1,219	1,051
Other receivables and assets	(16)	11,292	10,256	9,768
Cash and cash equivalents	(17)	9,750	17,421	15,694
		143,425	**126,928**	**112,682**
Non-current assets and disposal group held for sale	(18)	**49,695**	**524**	**7,989**
Discontinued operations	(18)	**–**	**–**	**7,164**
		401,944	**344,678**	**315,636**

[1] See note 7 "CORRECTION OF ERRORS IN ACCORDANCE WITH IAS 8" as regards the retrospective restatement due to error.

in € thousands	Note	31/12/2022	31/12/2021 restated retrospectively[1]	1/1/2021 restated retrospectively[1]
EQUITY AND LIABILITIES				
Equity and reserves	(19)			
Subscribed capital		20,196	20,196	20,177
Capital reserve		86,921	86,921	86,840
Reserves[1]		14,039	12,612	8,853
Consolidated retained earnings[1]		55,137	64,979	38,729
Equity attributable to the shareholders of KAP AG		**176,293**	**184,708**	**154,598**
Non-controlling interests	(19)	583	546	2,296
		176,876	**185,254**	**156,895**
Non-current liabilities				
Provisions for pensions and similar obligations	(21)	12,876	16,677	18,280
Non-current financial liabilities	(22)	85,684	26,676	59,044
Deferred tax liabilities	(12)	9,443	6,528	6,643
Other non-current liabilities	(23)	381	–	–
		108,385	**49,881**	**83,967**
Current liabilities				
Other provisions[1]	(24)	13,380	17,420	17,260
Current financial liabilities	(22)	31,903	43,097	11,504
Trade payables	(25)	36,506	24,547	18,858
Income tax liabilities	(26)	7,620	7,643	4,961
Other liabilities[1]	(27)	15,124	16,836	17,296
		104,533	**109,543**	**69,879**
Liabilities associated with disposal group	(18)	**12,150**	**–**	**–**
Liabilities associated with discontinued operations		**–**	**–**	**4,896**
		401,944	**344,678**	**315,636**

[1] See note 7 "CORRECTION OF ERRORS IN ACCORDANCE WITH IAS 8" as regards the retrospective restatement due to error.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2022

			Revenue reserves	
in € thousands	Subscribed capital	Capital reserve	Exchange differences	Actuarial gains/losses
1/1/2021	**20,177**	**86,840**	**–23,821**	**–6,982**
Correction of error[1]	–	–	26,717	–
Total as of 1/1/2021 (restated retrospectively) at beginning of financial year	**20,177**	**86,840**	**2,896**	**–6,982**
Consolidated profit/loss	–	–	–	–
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	–	–
Dividends paid to shareholders	–	–	–	–
Change in consolidated group	–	–	–	252
Withdrawals	–	–	–	–
Other changes	–	–	–	171
31/12/2021 (restated retrospectively)	**20,196**	**86,921**	**6,748**	**–6,115**
1/1/2022	**20,196**	**86,921**	**–19,969**	**–6,115**
Correction of error[1]	–	–	26,717	–
Total as of 1/1/2022 (restated retrospectively) at beginning of financial year	**20,196**	**86,921**	**6,748**	**–6,115**
Consolidated profit/loss	–	–	–	–
Other comprehensive income before taxes	–	–	–688	3,023
Deferred taxes on other comprehensive income	–	–	–	–907
Total comprehensive income	**–**	**–**	**–688**	**2,116**
Dividends paid to shareholders	–	–	–	–
Other changes	–	–	–	–
31/12/2022	**20,196**	**86,921**	**6,059**	**–3,998**

[1] See note 7 "CORRECTION OF ERRORS IN ACCORDANCE WITH IAS 8" as regards the retrospective restatement due to error.
For additional information on equity see note 19 of the consolidated financial statements.

Other	Total	Consolidated retained earnings	Equity attributable to KAP shareholders	Non-controlling interests	Total equity
10,372	**–20,431**	**65,446**	**152,032**	**2,296**	**154,328**
2,567	29,284	–26,717	2,567	–	2,567
12,939	**8,853**	**38,729**	**154,598**	**2,296**	**156,895**
–	–	39,843	39,843	14	39,857
–	4,488	–	4,488	–	4,488
–	–191	–	–191	–	–191
10,372	**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	–	–	–	–	–
11,978	**12,612**	**64,979**	**184,708**	**546**	**185,254**
9,411	**–16,672**	**91,696**	**182,141**	**546**	**182,687**
2,567	29,284	–26,717	2,567	–	2,567
11,978	**12,612**	**64,979**	**184,708**	**546**	**185,254**
–	–	–1,725	–1,725	37	–1,688
–	2,335	–	2,335	–	2,335
–	–907	–	–907	–	–907
–	**1,428**	**–1,725**	**–297**	**37**	**–259**
–	–	–8,098	–8,098	–	–8,098
–	–	–20	–20	–	–20
11,978	**14,039**	**55,137**	**176,292**	**583**	**176,876**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2022

in € thousands	2022	2021 restated retrospectively[1]
Consolidated profit/loss after taxes	**–1,688**	**39,857**
less earnings from discontinued operations after taxes	–1,037	–18,205
Earnings from continuing operations	**–2,725**	**21,652**
Interest income	–298	–61
Interest expenses	4,058	2,591
Income taxes	3,934	6,640
Earnings from continuing operations before interest and income taxes	**4,969**	**30,822**
Depreciation, amortisation and impairment of non-current assets	36,879	25,151
Change in provisions	–5,852	–1,593
Other non-cash expenses and income	523	–5,298
Gains/losses on the disposal of non-current assets and of non-current assets held for sale	–4,916	–23,374
Change in inventories, receivables and other assets not attributable to investing and financing activities	–14,809	–10,919
Change in payables and other liabilities not attributable to investing and financing activities	6,096	811
Interest received	298	61
Interest paid	–3,849	–2,414
Income taxes received	106	1,098
Income taxes paid	–2,550	–6,039
Cash flow from operating activities	**16,888**	**8,306**
Proceeds from the disposal of property, plant and equipment (including investment property) and non-current assets held for sale	7,646	37,509
Investments in property, plant and equipment (including investment property)	–26,617	–30,066
Investments in intangible assets	–712	–1,190
Cash inflow from the disposal of consolidated companies	–	19,271
Cash outflow from the addition of consolidated companies net of cash acquired	–29,299	–7,182
Proceeds from repayments of financial receivables	–188	35
Cash flow from investing activities	**–49,170**	**18,377**

[1] See note 7 "CORRECTION OF ERRORS IN ACCORDANCE WITH IAS 8" as regards the retrospective restatement due to error.

in € thousands	2022	2021
Proceeds from capital increase	–	–
Dividends paid to shareholders	–8,098	–13,593
Cash outflow from the acquisition of non-controlling interests	–	–2,301
Proceeds from borrowings	111,794	15,007
Repayment of lease liabilities	–4,833	–3,459
Repayment of bank liabilities	–74,233	–20,412
Cash flow from financing activities	**24,630**	**–24,758**
Net change in cash and cash equivalents	–7,651	1,926
Change in cash and cash equivalents due to exchange-rate, consolidated-group and valuation effects	–20	–199
Cash and cash equivalents at beginning of period	17,421	15,694
Cash and cash equivalents at end of period	**9,750**	**17,421**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2022

1. GENERAL REMARKS

KAP AG or the KAP Group has prepared the consolidated financial statements for the period ended 31 December 2022 in accordance with the International Financial Reporting Standards (IFRSs) 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 (IFRSs) in effect as of 31 December 2022 and the associated interpretations (IFRICs). In addition to the consolidated statement of financial position, the consolidated statement of income, the consolidated statement of comprehensive income/loss, the statement of changes in equity and the consolidated statement of cash flows are also shown. The notes to the consolidated financial statements 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.

As in the previous year, these consolidated financial statements have been prepared on a going concern basis.

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

KAP AG is a listed industrial holding company that holds stakes in medium-sized companies. The group companies operate in four (previous year: four) 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 material domestic and foreign subsidiaries over which KAP AG has legal and/or de facto control. In addition to the parent company, the consolidated group includes 28 (previous year: 28) German and 21 (previous year: 19) foreign entities.

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

One subsidiary (previous year: two subsidiaries) was not included. In the previous year, one investment was also not included. On aggregate, the key figures for the companies not included in the consolidated financial statements are less than 1% of consolidated revenue, consolidated equity and consolidated total assets respectively.

Overall, the consolidated group changed as follows in the reporting year:

	31/12/2021	Additions	31/12/2022
Germany	28	–	28
Other countries	19	2	21
Total	**47**	**2**	**49**

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

Compared with the previous year, the consolidated financial statements include for the first time KAP HoldCo LTD., Tel Aviv, Israel, and its newly acquired subsidiary, Haogenplast LTD., Haogen, Israel (since 1 February 2022 part of the KAP Group).

KAP HoldCo LTD. has no material business activities. Purchase accounting for Haogenplast LTD. resulted in additional revenue (€48.5 million), personnel expenses (€8.3 million), other operating expenses (€7.1 million) and depreciation, amortisation and impairments (€4.2 million). On aggregate, this had a positive EBITDA effect of €6.5 million. The additional effect on the Group's total assets was €61.4 million.

The gain/loss on deconsolidation of subsidiaries is disclosed under gains/losses from assets withdrawn from use and liabilities. Discontinued operations are recognised separately under earnings from discontinued operations after taxes. The date of initial consolidation and deconsolidation is generally the date on which control is transferred. Any material effects resulting from changes in the consolidated group are explained, where required, 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
KAP Precision Components GmbH	Fulda
KAP Surface Holding GmbH	Heinsdorfergrund
Heiche Oberflächentechnik GmbH	Schwaigern
Heiche Logistic GmbH	Schwaigern

These and other companies that also made use of section 264 (3) HGB and section 264b HGB are shown in the list of shareholdings of KAP AG in accordance with section 313 (2) HGB that is presented in note 49.

KAP AG's documents that require disclosure are filed with the Federal Gazette ("Bundesanzeiger") and subsequently published.

3. CONSOLIDATION PRINCIPLES

The acquisition 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 as of KAP AG's reporting date and are based on uniform accounting policies.

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 statement of income.

Shares in the capital and profit/loss 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.

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

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 entity.

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 standards for hyperinflationary economies, expenses and income are translated using the closing 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 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	
	2022	2021 €1 =	31/12/2022	31/12/2021 €1 =
Belarusian rouble	2.9634	2.9967	2.6948	2.8945
Chinese yuan	7.0692	7.6209	7.4355	7.2172
Indian rupee	82.6877	87.3227	88.1567	84.1680
Israeli shekel	3.5346	3.8195	3.7542	3.5097
Polish zloty	4.6877	4.5672	4.6858	4.5944
Swedish krona	10.6311	10.1494	11.0775	10.2558
South African rand	17.2117	17.4298	18.0774	18.0538
Czech koruna	24.5628	25.6209	24.1440	24.8610
Hungarian forint	391.1564	358.3376	400.3800	369.8500
US dollar	1.0536	1.1814	1.0676	1.1320

5. ACCOUNTING POLICIES

The financial statements of the entities included in the consolidated financial statements have been prepared in accordance with uniform accounting policies.

Fair value measurement

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 received to sell an asset or the price that would be paid to transfer a liability. 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. They are allocated to hierarchy level 2 if a valuation model is used or the price is derived from similar transactions. Financial assets and liabilities are recognised in hierarchy level 3 if the fair value is significantly determined from unobservable parameters.

When measuring the fair value of a non-financial asset, the Group takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy in accordance with IFRS 13, as described below, based on the lowest level input that is significant to the entire fair value measurement:

– Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

– Level 2: Valuation techniques for which inputs are observable, either directly or indirectly.

– Level 3: Valuation techniques for which the lowest level input is not observable on the market.

The level to which fair value measurement is allocated overall is determined by the lowest level input that is significant to the entire measurement. The different hierarchy levels involve different levels of detail in the disclosures.

Intangible assets

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

Purchased intangible assets are initially recognised at cost. This includes the purchase price as well as any costs directly attributable to bringing the assets to the condition necessary for them 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.

Expenses for research and development are generally expensed as incurred. 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.

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

Goodwill and intangible assets with an indefinite useful life

Goodwill arising from a business combination is initially recognised at cost and is measured in subsequent periods at cost less any accumulated impairment losses. Goodwill is measured as the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, over the net assets measured at fair value. If the consideration transferred is less than the net assets measured at fair value of the subsidiary acquired, the difference is recorded in profit or loss immediately following reassessment of the purchase price allocation.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the business combination.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. The amount of goodwill disposed of is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

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 measured.

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
Other equipment, furniture and fixtures	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.

Leases
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, furniture and fixtures	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, depreciation is 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 future lease payments to be made over the lease term. The lease payments include fixed payments, lease payments that depend on an index or (interest) 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.

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 4.29%. 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 are 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 gain on sale 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. Depreciation is charged in the same way as for comparable items of property, plant and equipment (other equipment, furniture and fixtures).

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 at the end of the period in which the acquisition took place. 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 new recoverable amount determined 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 recognised on a cash-generating unit is determined based on its 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 reputable market research institutions. Uncertainties are considered using sensitivity analyses. For the impairment test of goodwill and intangible assets with indefinite useful lives, it is assumed that supply chains will not be disrupted, involving above-average increases in prices for raw materials and energy, beyond the first half of 2023 and that all segments will see a recovery in the medium term, 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 5.5% (**flexible films**), 5.3% (**engineered products**) and 18.1% (**surface technologies**) are assumed, and average normalised EBITDA margins of 14.6% (**flexible films**), 8.2% (**engineered products**) and 18.9% (**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 rendered using a terminal value.

Determined on the basis of capital market data, WACC is an after-tax amount and is iteratively converted to a pre-tax figure for impairment testing purposes. The corresponding after-tax discount rates were 7.19% for **engineered products** (previous year: 4.70%), 9.10% for **flexible films** (previous year: 5.91%) and 10.49% for **surface technologies** (previous year: 7.38%). 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 9.30% for **engineered products** (previous year: 5.98%), 12.07% for **flexible films** (previous year: 8.22%) and 12.88% for **surface technologies** (previous year: 9.48%).

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 led to the conclusion that there would be no need for impairment.

The estimated recoverable amount of the **flexible films** cash-generating unit is €74.5 million.

Impairment of financial assets

Details of the KAP Group's methods used for estimating expected credit losses on financial assets and liabilities in accordance with IFRS 9 and the calculation of loss allowances are presented in note 43 in the section on credit and default risk.

Deferred taxes

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

Deferred tax assets are recognised on unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

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 measurement 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 there is a legally enforceable right to offset current tax assets against current tax liabilities and they relate to income taxes levied by the same tax authority on the same taxable entity.

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 costs of conversion of work in progress and finished goods, production-related overheads are included on the basis of normal capacity utilisation in addition to direct costs.

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 loss is reversed through profit or loss. However, the carrying amount must not exceed the amortised cost that would have been carried had the impairment loss not been recognised.

Receivables from the Group's factoring facilities are recognised as assets in the statement of financial position only 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.

Derecognition

A financial asset (or part of a financial asset or part of a group of similar financial assets) is mainly derecognised (i.e. removed from the consolidated statement of financial position) when the contractual rights to the cash flows from the financial asset have expired or the financial asset is transferred to a third party.

Receivables, including the associated loss allowance, are derecognised when deemed uncollectible.

Impairment of financial assets

In accordance with IFRS 9, impairment losses on financial assets measured at amortised cost (cash/other receivables/trade receivables) are determined as a loss allowance for expected credit losses (ECL). In principle, in accordance with IFRS 9, a distinction is made between three stages that differ in terms of period considered, loss allowances and recognition of interest payments. Financial instruments are generally allocated to stage 1 unless they are already credit-impaired at initial recognition.

– Stage 1: For financial instruments for which there has not been a significant increase in credit risk at the reporting date since initial recognition, loss allowances are recognised through profit or loss based on 12-month ECLs.

– Stage 2: If the credit risk has increased significantly as of the reporting date, a loss allowance is recognised at the amount of the lifetime ECL. The ECL is a probability-weighted estimate of credit losses. Interest is calculated based on the financial assets' gross carrying amount.

– Stage 3: If there is objective evidence that a financial instrument is credit-impaired, it is allocated to stage 3. The loss allowance is also recognised at the amount of the lifetime ECL. Interest is calculated based on the financial assets' gross carrying amount net of the loss allowance.

In accordance with IFRS 9, loss allowances are calculated based on expected losses. The standard generally provides for expected losses over the entire remaining term to maturity to be considered as of the date on which the receivables are recognised. Such lifetime ECLs are expected credit losses arising from all kinds of potential default events during the expected term of a financial instrument.

The date as of which financial assets measured at amortised cost are deemed credit-impaired is based on the insights gained in counterparty risk management and the related criteria described in note 43 "FINANCIAL INSTRUMENTS."

IFRS 9 permits a simplified impairment approach in calculating ECLs involving recognition of a loss allowance based on lifetime ECLs for all financial assets. Current receivables have a remaining term of up to one year and the expected loss is therefore determined based on the 12-month ECL. As in the previous year, in 2022 there were no non-current receivables with terms of more than one year within trade receivables, and these receivables also have a very low counterparty default risk.

Based on historical loss experience, default rates are determined for different maturity bands and then applied to the respective outstanding balance of receivables in the maturity bands. The default rate is adjusted for forward-looking factors such as macroeconomic and business developments as well as changes in the customers' structure. A financial asset or a group of financial assets is impaired and a corresponding impairment loss is recognised if there is any evidence of impairment as the result of one or more events after initial recognition of the financial asset. This estimate is made as of each reporting date.

Income tax assets 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 asset.

Assets classified as held for sale and discontinued operations as well as disposal group
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 vested 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 obligations.

The expenses from unwinding the discount on pension provisions and the return on 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 where their expected amount 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 operating segment 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 payments
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 granting of virtual shares. The share-based payment is accounted for in accordance with the requirements 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 technique.

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.

Lease liabilities are recognised at the present value of the minimum lease payments. The resulting finance cost is 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 using either the expected value or the most likely amount.

The period between the payment by the customer and the transfer of goods or services to the customer is one year or less. As permitted by IFRS 15.121, the transaction price allocated to such unsettled performance obligations is not disclosed. 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 costs are incurred to obtain the contract and the corresponding amortisation period for costs to obtain the contract is one year or less, costs to obtain a contract are not capitalised but recognised as an expense instead.

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 are identified separately as belonging to 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 advance payments, contract liabilities are recognised.

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 profit/loss for the period attributable to the ordinary shareholders of the parent company (consolidated profit/loss 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 are presented in the individual descriptions of the associated items in the notes to the consolidated financial statements.

Estimates and judgements relating to macroeconomic risks and the war in Ukraine

The effects of the war in Ukraine and other macroeconomic risks (such as from inflation, economic development, interest-rate policy, supply chain problems) on KAP AG are multi-faceted and above all a result of increasing prices for energy and raw materials as well as supply bottlenecks. If the conflict escalates, this would additionally increase the risk of a global economic downturn which – coupled with rising inflation and interest rates – could cause a considerable drop in consumption.

In response to the associated economic uncertainties and volatilities, KAP analyses the potential opportunities and risks to its corporate structure and future sales markets and takes these considerations into account in preparing the consolidated financial statements.

The risks and uncertainties relating to the war in Ukraine and other macroeconomic risks could give rise to the following effects:

– Volatility on commodities markets
– Reduced margins if price increases cannot be passed on to customers with immediate effect
– Interest rate changes in various countries
– Increasingly volatile exchange rates
– Declining and volatile share prices
– Poorer creditworthiness, payment defaults or late payments.

These factors have to some extent had an effect on the fair value and carrying amount of assets and liabilities as well as cash flows, in particular in measuring pension provisions, determining the discount rate for testing goodwill for impairment, and on the recoverability of deferred tax assets. Actual amounts may differ from the estimates and judgements made. KAP AG is confident that the underlying assumptions made when preparing the consolidated financial statements appropriately reflect the situation.

Estimated impairment of goodwill

KAP tests goodwill for impairment annually in accordance with the accounting policy described in note 5 "ACCOUNTING POLICIES – Impairment of non-current non-financial assets." A cash-generating unit's recoverable amount is determined based on its value in use. These calculations use discounted cash flow models that involve estimates.

Income taxes

The Group is required to pay income taxes in a number of different tax jurisdictions. Significant judgements need to be made in determining its global income tax liabilities. There are transactions and calculations for which it is not possible to conclusively determine the final taxation. The Group measures provisions for anticipated tax audits on the basis of estimates of whether and in what amount additional income taxes could be payable. To the extent that the final taxation of such transactions differs from that originally assumed, this will affect current and deferred taxes in the period in which the taxation is conclusively assessed.

Further information is provided in note 12 "DEFERRED TAX ASSETS", note 15 "INCOME TAX ASSETS" and note 36 "INCOME TAXES".

Deferred tax assets are recognised if sufficient future taxable profits will be available. This is assessed based on planned operating results, effects on profit/loss from the reversal of taxable temporary differences as well as possible tax strategies that KAP may pursue.

With reference to the taxable profit of previous periods and planned future taxable profit, KAP assesses at each reporting date whether the deferred tax assets are recoverable. As future business developments are uncertain and sometimes outside KAP's control, assumptions have to be made in estimating future taxable profits and the timing of when deferred tax assets may be realised. Estimates are adjusted in the period in which there are sufficient indications that an adjustment is required.

Pension benefits

The present value of pension obligations depends on a number of factors that are determined based on certain actuarial assumptions. The assumptions made in calculating the net benefit cost/return also relate to the discount rate used. Any changes in these assumptions affect the carrying amount of pension obligations.

The present value of defined benefit obligations is determined by discounting estimated future cash flows using the interest rates of high-quality fixed-interest corporate bonds.

The Group determines the appropriate discount rate at the reporting date. In determining an appropriate discount rate, the Group refers to the interest rates of high-quality fixed-interest corporate bonds that are denominated in the currency in which the benefits will be paid and have terms that approximate the remaining terms of the associated pension obligations.

Some of the other significant assumptions made regarding pension obligations relate to the current market conditions. Further information is provided in note 21 "PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS."

Useful life of property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives and related depreciation and amortisation expense for property, plant and equipment and intangible assets. The estimate is based on expected future life cycles. Changes are possible due to technical innovations and measures taken by other competitors in response to an economic downturn. Management increases the depreciation and amortisation expense when the asset's life is shorter than previously estimated, and any technologically obsolete or strategically worthless asset that has been withdrawn from use or disposed of is derecognised or written off.

Accounting for leases

Accounting for leases involves estimation uncertainties and judgements that are described in note 9 "PROPERTY, PLANT AND EQUIPMENT."

Business combinations

Accounting for business combinations requires judgements to be made in assessing whether an intangible asset is identifiable and should be recognised separately from goodwill. In addition, estimating the acquisition-date fair values of the identifiable assets acquired and liabilities assumed involves exercising significant judgement. The measurement required is based on the information available at the acquisition date and on the expectations and assumptions that management considers to be reasonable. These judgements, estimates and assumptions could have a material effect on the financial position, cash flows and financial performance for reasons including those given below.

The fair values attributed to assets subject to depreciation and amortisation influence the amount of depreciation and amortisation recognised in the operating result in post-acquisition periods.

Subsequent adverse changes in the estimated fair value of the assets could give rise to additional expenses on account of impairment losses.

Subsequent changes in the estimated fair value of liabilities and provisions could give rise to additional expenses (if there is an increase in estimated fair value) or additional income (if there is a decrease in estimated fair value).

6. NEW ACCOUNTING STANDARDS

a) Standards/interpretations effective for the first time in the 2022 financial year:

Standard/ Interpretation		Effective as of [1]	Endorsed by the European Commission	Effects
COVID-19-related amendments to IFRS 16	IFRS 16 Leases – COVID-19-Related Rent Concessions beyond 30 June 2021.	1/4/2021	Yes	None
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 an entity must include when assessing whether a contract will be onerous or 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).	1/1/2022	Yes	None

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

b) Standards/interpretations effective for the first time in future financial years:

Standard/ Interpretation		Effective as of [1]	Endorsed by the European Commission	Anticipated effects
Amendments to IAS 1 and 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.	1/1/2023	Yes	None
IFRS 17	Insurance Contracts	1/1/2023	Yes	None
Amendments to IAS 12	Amendments to IAS 12 Income Taxes regarding existing uncertainties in accounting for deferred taxes in connection with leases and decommissioning obligations.	1/1/2023	Yes	None
Amendments to IFRS 17	Amendments to IFRS 17 Insurance Contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information; 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.	1/1/2023	Yes	None

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

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

Standard/ Interpretation		Anticipated effects
Amendments to IAS 1	Amendments to IAS 1 Presentation of Financial Statements: Classification of liabilities as current depends on the entity'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
Amendments to IFRS 16	Amendments to IFRS 16 Leases: Concerning accounting for lease liabilities in sale and leaseback transactions. A seller-lessee is required to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use retained.	None

7. CORRECTION OF ERRORS IN ACCORDANCE WITH IAS 8

In the reporting year, an error was corrected in accordance with IAS 8.42, leading to an increase in property, plant and equipment on the one hand and to an increase in other revenue reserves recognised directly in equity on the other. The increase is attributable to a consolidation difference from previous years relating to the depreciation of land that is no longer within the consolidation scope.

in € thousands	31/12/2021	Increase/decrease	Increase/decrease	31/12/2020 restated retrospectively	Increase/decrease	1/1/2021 restated retrospectively
EXCERPT FROM THE STATEMENT OF FINANCIAL POSITION						
Assets						
Property, plant and equipment	172,343	2,567	174,909	149,893	2,567	152,459
Equity and liabilities						
Other revenue reserves	9,411	2,567	11,978	10,372	2,567	12,938

In the reporting year, an error was corrected in accordance with IAS 8.42. It is attributable to a consolidation difference resulting from the omission to reclassify exchange differences to profit or loss on the disposal of foreign operations in accordance with IAS 21.48. Accordingly, the exchange difference was reclassified to profit or loss retrospectively and the resulting past effect on profit recognised in the consolidated statement of financial position.

in € thousands	31/12/2021	Increase/decrease	31/12/2021 restated retrospectively	31/12/2020	Increase/decrease	1/1/2021 restated retrospectively
EXCERPT FROM THE STATEMENT OF FINANCIAL POSITION						
Revenue reserves from exchange differences	-19,969	26,717	6,748	–23,821	26,717	2,896
Consolidated retained earnings	91,696	–26,717	64,979	65,446	–26,717	38,729
Equity and reserves	**71,727**	**–**	**71,727**	**41,625**	**–**	**41,625**

In the reporting year, an error was corrected in accordance with IAS 8.42, involving a reclassification adjustment out of employee benefits, principally obligations for annual leave and overtime as well as severance payments agreed, in the consolidated statement of financial position. The Group had previously reported such obligations under current provisions. However, as the amount of these obligations is already finite, it is appropriate to report these under other current liabilities in accordance with IAS 37.

in € thousands	31/12/2021	Increase/decrease	31/12/2021 restated retrospectively	31/12/2020	Increase/decrease	1/1/2021 restated retrospectively
EXCERPT FROM THE STATEMENT OF FINANCIAL POSITION						
Other liabilities	11,339	5,497	16,836	7,456	9,840	17,296
Other provisions	22,917	–5,497	17,420	27,100	–9,840	17,260
Current liabilities	**34,256**	**–**	**34,256**	**34,556**	**–**	**34,556**

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

NON-CURRENT ASSETS

The list of shareholdings is presented in note 49 of these notes to the consolidated financial statements.

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

8. 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 goodwill acquired in business combinations as well as 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 the course of the purchase price allocation for the entity Haogenplast Ltd., Haogen, Israel, goodwill of €6,418 thousand, technology of €5,125 thousand and customer relationships of €3,264 thousand were identified. The useful lives are eight years for the technology and nine years for the customer relationships.

Customer relationships as of 31 December 2022 of €12,412 thousand (previous year: €12,538 thousand) are largely accounted for by the **flexible films** segment (€2,713 thousand; previous year: €1,329 thousand), the **surface technologies** segment (€8,587 thousand; previous year: €11,122 thousand) and the **precision components** segment (€1,067 thousand; previous year: €0 thousand). The useful lives are three to nine years. The remaining useful lives are between one and nine years.

Of the goodwill recognised as of 31 December 2022 amounting to €7,268 thousand (previous year: €12,251 thousand), €6,394 thousand (previous year: €8,401 thousand) is attributable to the **flexible films** segment and €873 thousand (previous year: €3,850 thousand) to the **surface technologies** segment. Goodwill in the **flexible films** segment increased by €6,418 thousand on account of the acquisition of Haogenplast Ltd. It was reduced by the reclassification of €8,415 thousand to non-current assets and disposal groups held for sale.

Intangible assets with an indefinite useful life relate to the Heiche brand, which has a carrying amount of €3.3 million. It was measured for the purpose of impairment testing at the level of the **surface technologies** CGU. From a market perspective, this brand is assumed to have an indefinite useful life because these are brand names that have been established in the market for many years and the end of their useful lives is not foreseeable and is therefore indefinite.

Software and licences have a remaining useful life of one to nine years.

The impairment tests carried out as of year-end gave rise to an impairment loss of €2,977 thousand (previous year: €0 thousand) on goodwill in the **surface technologies** segment.

9. PROPERTY, PLANT AND EQUIPMENT

Leases

The KAP Group has concluded leases for various office and production areas and for 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 leases of low-value assets, the Group applies the exemptions allowed under IFRS.

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

Right-of-use assets	2022	2021
Land and buildings	18,516	18,720
Technical equipment and machinery	279	1,163
Other equipment, furniture and fixtures	1,543	1,115
Total	**20,338**	**20,998**

Lease liabilities	2022	2021
Current	3,608	2,578
Non-current	19,182	19,946
Total	**22,790**	**22,524**

Additions to the right-of-use assets during the 2022 financial year amounted to €6,713 thousand (previous year: €8,090 thousand).

Depreciation of right-of-use assets	2022	2021
Land and buildings	3,730	1,596
Technical equipment and machinery	84	251
Other equipment, furniture and fixtures	722	522
Total	**4,536**	**2,369**

Expenses for leases	2022	2021
Interest expenses (recognised in finance costs)	170	397
Expenses in connection with short-term leases (recognised in other operating expenses)	39	147
Expense for leases of low-value assets that are not included in the short-term leases above (recognised in other operating expenses)	58	64
Total	**267**	**608**

Amounts recognised in the statement of cash flows:

Total payments for leases amounted to €4,580 thousand (previous year: €3,459 thousand) and were included in the cash flow from financing activities.

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, depreciation is calculated on the basis of the expected useful life of the leased asset. There are significant uncertainties related to the exercise of these purchase options. Exercising the purchase option is being considered with respect to the lease agreement of an entity in the United States. Should the purchase option be exercised, right-of-use assets and lease liabilities of €5.3 million respectively would be derecognised and the leased asset would be recognised at the anticipated purchase price. The decision to exercise the purchase option has not yet been made.

Government grants of €3,290 thousand (previous year: €3,346 thousand) were recognised in the 2022 financial year. Government grants were largely awarded for the acquisition of certain buildings and machinery at the Heinsdorfergrund, Leisnig and Döbeln sites and were deducted from the assets' carrying amount. The conditions attached to these grants were met in full.

10. INVESTMENT PROPERTIES

The previous-year disclosure concerned commercial land and buildings of Mehler Aktiengesellschaft in Flieden and commercial land of GbR Mehler AG/Daun & Cie. AG in Stadtallendorf, which were measured using the cost model.

The commercial land and buildings of Mehler Aktiengesellschaft in Flieden were sold in their entirety in 2022. The commercial land of GbR Mehler AG/Daun & Cie. AG in Stadtallendorf was reclassified in its entirety to "non-current assets and disposal group held for sale" in 2022.

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 underlying standard land values were determined by appraisal committees. 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 rent 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:

	2022		2021	
Valuation parameters	Range for commercial properties		Range for commercial properties	
Market rent (€ per m² p.a.)	–	–	18.47	27.76
Property yield (%)	–	–	6.70	7.00
Remaining useful life (years)	–	–	1.00	14.00
Multiplier	–	–	0.93	8.91

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 capitalised earnings values were determined. The disclosure is a range because the investment properties were located in different regions of Germany:

	2022 Range		2021 Range	
	6.50%	8.50%	6.50%	8.50%
Capitalised earnings value (€ thousands)	–	–	6,927	6,045

DEVELOPMENT OF THE GROUP'S NON-CURRENT ASSETS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2022

	Cost							
in € thousands	1/1/2022 restated retrospec-tively	Currency adjustment	Acquisition of a subsidiary	Assets classified as held for sale	Additions	Reclassifi-cations	Disposals	31/12/2022
Intangible assets								
Software and licences	7,111	–	–	–898	657	568	–140	7,298
Development expenditure	314	–15	–	–	49	–	–	348
Brand and brand name	3,433	–8	–	–	–	–	–	3,425
Technology	6,098	–370	5,125	–5,124	–	–	–	5,730
Customer relationships	24,080	–994	4,464	–2,657	–	–	–	24,893
Other internally generated intangible assets	168	–	–	–	26	–	–	194
Goodwill	17,800	–19	6,418	–8,415	–	–	–	15,783
Advance payments made on intangible assets	408	–	–	–	611	–335	–	684
	59,412	**–1,406**	**16,007**	**–17,094**	**1,343**	**233**	**–140**	**58,355**
Property, plant and equipment								
Land and buildings [1]	119,134	5	3,945	–15,463	2,323	892	–844	109,993
Technical equipment and machinery	286,949	–1,060	12,754	–26,872	4,829	18,192	–7,706	287,087
Other equipment, furniture and fixtures	50,604	–296	2,262	–4,913	4,746	1,138	–1,627	51,914
Advance payments made and assets under construction	19,134	565	–	–3,414	16,741	–20,454	–53	12,519
	475,822	**–786**	**18,961**	**–50,662**	**28,639**	**–233**	**–10,229**	**461,513**
Investment properties	**10,041**	**–**	**–**	**–3,255**	**–**	**–**	**–6,786**	**–**
Other financial assets	**566**	**–10**	**–**	**–**	**227**	**–**	**–29**	**754**
	545,841	**–2,202**	**34,969**	**–71,011**	**30,209**	**–**	**–17,185**	**520,621**

[1] See note 7 "CORRECTION OF ERRORS IN ACCORDANCE WITH IAS 8" as regards the retrospective restatement due to error.

Accumulated amortisation, depreciation and impairment							Carrying amounts	
1/1/2022	Currency adjustment	Assets classified as held for sale	Additions – amortisation /depreciation	Additions – impairment losses	Disposals	31/12/2022	31/12/2022	1/1/2022 restated retrospectively
5,303	–3	–733	824	–	–139	5,251	2,047	1,808
208	–15	–	37	–	–	230	118	106
118	–8	–	3	–	–	113	3,312	3,315
825	–49	–1,025	1,230	–	–	981	4,748	5,273
11,542	–359	–1,661	2,959	–	–	12,481	12,412	12,538
–	–	–	–	–	–	–	194	168
5,549	–9	–	–	2,977	–	8,517	7,267	12,251
–	–	–	–	–	–	–	684	408
23,545	**–444**	–3,419	5,053	**2,977**	**–139**	**27,573**	**30,782**	**35,867**
50,258	143	–7,014	5,872	297	–145	49,410	60,582	68,876
214,372	273	–22,564	16,491	665	–7,340	201,896	85,192	72,578
36,169	–36	–3,640	5,443	–	–1,406	36,530	15,384	14,435
114	–	–	17	–	–26	105	12,413	19,020
300,913	**379**	**–33,219**	**27,823**	**962**	**–8,917**	**287,941**	**173,571**	**174,909**
8,153	**–**	**–2,848**	**64**	**–**	**–5,370**	**–**	**–**	**1,888**
370	**–**	**–**	**–**	**–**	**–**	**370**	**384**	**196**
332,982	**–65**	**–39,485**	**32,940**	**3,939**	**–14,426**	**315,885**	**204,737**	**212,860**

DEVELOPMENT OF THE GROUP'S NON-CURRENT ASSETS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2021

	Cost							
in € thousands	1/1/2021 restated retrospectively	Currency adjustment	Acquisition of a subsidiary	Additions	Reclassifications	Disposals	Reclassifications[1]	31/12/2021 restated retrospectively
Intangible assets								
Software and licences	6,245	–123	–	481	587	–295	215	7,111
Development expenditure	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[2]	117,065	1,758	182	8,644	2,094	–10,609	–	119,134
Technical equipment and machinery	277,600	4,294	1,680	3,308	16,879	–16,812	–	286,949
Other equipment, furniture and fixtures	49,352	458	11	3,037	939	–4,120	927	50,604
Advance payments made and assets under construction	15,811	612	21	23,166	–20,409	–67	–	19,134
	459,829	**7,122**	**1,894**	**38,155**	**–496**	**–31,609**	**927**	**475,822**
Investment properties	**10,038**	**–**	**–**	**3**	**–**	**–**	**–**	**10,041**
Other financial assets	**671**	**–2**	**–28**	**4**	**–**	**–79**	**–**	**566**
	518,631	**6,779**	**11,927**	**39,352**	**–**	**–31,990**	**1,142**	**545,841**

[1] Reclassified to non-current assets held for sale.
[2] See note 7 "CORRECTION OF ERRORS IN ACCORDANCE WITH IAS 8" as regards the retrospective restatement due to error.

Accumulated amortisation, depreciation and impairment								Carrying amounts	
1/1/2021	**Currency adjustment**	**Additions**	**Reversal of impairment losses**	**Reclassifi-cations**	**Disposals**	**Reclassifi-cations [1]**	**31/12/2021**	**31/12/2021 restated retrospec-tively**	**1/1/2021 restated retrospec-tively**
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	68,876	62,687
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**	**174,909**	**152,459**
8,077	**–**	**76**	**–**	**–**	**–**	**–**	**8,153**	**1,888**	**1,961**
440	**–**	**–**	**–**	**–**	**–70**	**–**	**370**	**196**	**231**
336,140	**3,252**	**25,151**	**–6,231**	**–**	**–25,793**	**462**	**332,982**	**212,860**	**182,491**

11. BUSINESS COMBINATIONS

Acquisition of shares in Haogenplast Ltd.

On 29 December 2021, the agreement was signed for KAP HoldCo Ltd., Tel Aviv, Israel (a fully owned subsidiary of Mehler Aktiengesellschaft), to acquire 100% of the shares in Haogenplast Ltd., Haogen, Israel. The shares were transferred effective as of 1 February 2022. A leading supplier of premium plastics products with registered offices in Israel, Haogenplast Ltd. mainly manufactures films for applications in the construction sector, such as swimming pools, window laminates and high-tech weatherproof roofing. The purpose of the transaction is to grow and broaden the product portfolio.

The acquired assets and liabilities of the entity were as follows as of the acquisition date of 1 February 2022:

in € thousands	Carrying amounts before purchase price allocation	Adjustment	Final purchase price allocation
Non-current assets			
Intangible assets	–	8,390	8,390
Property, plant and equipment	17,904	76	17,980
	17,904	**8,466**	**26,369**
Current assets			
Inventories	15,371	539	15,910
Trade receivables	7,871	–	7,871
Other receivables and assets	1,598	–	1,598
Cash and cash equivalents	1,852	–	1,852
	26,692	**539**	**27,231**
Assets	**44,596**	**9,004**	**53,600**
Non-current liabilities			
Deferred tax liabilities	1,200	1,413	2,613
Financial liabilities	6,623	–	6,623
Pension obligations	36	–	36
	7,858	**1,413**	**9,271**
Current liabilities			
Current financial liabilities	10,770	–	10,770
Trade payables	7,399	–	7,399
Other liabilities	3,901	–174	3,727
	22,071	**–174**	**21,896**
Liabilities	**29,929**	**1,239**	**31,167**
Net assets	**14,667**	**7,765**	**22,433**
Goodwill	–	6,418	6,418
Purchase price of shares	**–**	**–**	**28,851**

The purchase price was allocated to the material tangible and intangible assets and liabilities in accordance with IFRS.

In the course of the purchase price allocation, the following hidden reserves were identified:
– In accordance with IFRS 3 in conjunction with IAS 38, customer relationships were classified as intangible asset with a finite useful life and measured using the multi-period excess earnings method. This resulted in fair value of €3.3 million compared with a carrying amount of €0 thousand before the purchase price allocation.
– In total, hidden reserves of €76 thousand were disclosed in land and buildings.
– The hidden reserves in acquired technologies came to €5.1 million and were measured using the relief from royalty (RFR) method.
– In inventories, hidden reserves of €0.5 million were disclosed in finished goods and orders on hand.
– The effects described above also resulted in deferred tax liabilities of €1.4 million.

There were no major variances between fair value and the carrying amount of any other items in the statement of financial position.

In the period from 1 February to 31 December 2022, revenue of €48.5 million and the acquiree's profits of €1.1 million correspond to the amounts for the Group as a whole. If the entity had been acquired as of 1 January 2022 already, consolidated pro forma revenue of €52.5 million and a profit for the year of €1.1 million would have been disclosed as of 31 December 2022.

These amounts were determined based on the subsidiary's profits after eliminating:
– differences in accounting policies between the Group and the subsidiary and additional depreciation, amortisation and
– impairments that would have been charged if the adjustments made to record property plant and equipment and intangible assets at their fair values, together with the associated tax adjustments, had been applied from 1 January 2022.

The final purchase price allocation of assets and liabilities resulted in non-tax-deductible goodwill of €6,418 thousand under the full goodwill method. 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 €28,851 thousand. The purchase price was paid in full in cash.

Pentacon GmbH Foto- und Feinwerktechnik asset deal
Under an agreement dated 5 November 2021 and effective 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 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 final purchase price allocation revealed that a value of €1,200 thousand is attributable to the customer base and €1,100 thousand to the property, plant and equipment acquired. The fair value of the consideration transferred amounting to €2,300 thousand was paid in cash.

12. DEFERRED TAX ASSETS

Deferred taxes are allocable to the following items:

	31/12/2022		31/12/2021	
in € thousands	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	651	3,724	770	4,247
Property, plant and equipment	1,574	12,690	837	11,250
Investment properties	–	14	–	–
Financial assets	28	68	29	719
Inventories	1,258	–	1,061	–
Receivables and assets	441	414	441	444
Pension provisions	1,566	–	2,526	–
Other provisions	673	26	995	7
Liabilities	5,231	1,440	6,183	400
Other	140	65	204	1
Gross value of deferred taxes on temporary measurement differences	**11,562**	**18,441**	**13,046**	**17,068**
Reduction of temporary measurement differences	–524	–	–592	–
Unused tax losses	6,756	–	6,857	–
Reduction of unused tax losses	–4,709	–	–4,406	–
Offsetting	–8,998	–8,998	–10,540	–10,540
	4,087	**9,443**	**4,365**	**6,528**

Deferred taxes are recognised outside profit or loss if the taxes relate to measurement 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 measurement of pension obligations that are recognised in other comprehensive income.

Deferred tax assets were reduced if it was uncertain whether they can be utilised. Positive earnings forecasts for subsequent periods are decisive for the ability to utilise deferred tax assets on temporary measurement differences. To utilise unused tax losses, the duration over which these can be carried forward must also be taken into account.

Unused corporate income tax and comparable foreign tax losses break down as follows:

in € thousands	31/12/2022	31/12/2021
Can be carried forward for up to 5 years	5,824	8,260
Can be carried forward for up to 10 years	170	179
Can be carried forward for more than 10 years	2,316	2,516
Can be carried forward indefinitely	4,786	2,990
	13,096	**13,945**

The unused trade tax losses of €13,700 thousand (previous year: €15,481 thousand) can be carried forward indefinitely.

No deferred tax assets were recognised for positive temporary measurement differences of €2,193 thousand (previous year: €3,210 thousand).

Deferred tax assets of €711 thousand (previous year: €2,049 thousand) were recognised without there being any positive effects on profit from the reversal of deferred tax liabilities in a corresponding amount. After tax losses in the 2022 financial year or in the previous year, the entities expect taxable profits in the future.

Deferred taxes in connection with the actuarial gains and losses recognised directly in equity in the amount of €–907 thousand (previous year: €–191 thousand) were recognised in other comprehensive income.

13. INVENTORIES

in € thousands	31/12/2022	31/12/2021
Raw materials and supplies	**36,955**	**30,853**
Write-down	–3,150	–2,413
Carrying amount	33,805	28,440
Work in progress	**11,825**	**15,401**
Write-down	–804	–981
Carrying amount	11,021	14,420
Finished goods	**29,071**	**18,032**
Write-down	–1,987	–2,214
Carrying amount	27,084	15,818
Merchandise	**3,135**	**697**
Write-down	–10	–7
Carrying amount	3,125	690
Advance payments made on inventories	**183**	**229**
	75,218	**59,597**

Of the total amount, inventories with a carrying amount of €42,716 thousand (previous year: €34,613 thousand) were recognised at net realisable value.

14. TRADE RECEIVABLES

As in the previous year, all trade receivables of €45,921 thousand (previous year: €38,435 thousand) are due from third parties.

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 €1,600 thousand (previous year: €2,386 thousand) were recognised on receivables from third parties.

KAP AG sold financial assets in a total volume of €18,498 thousand (previous year: €9,578 thousand) as part of factoring transactions. The maximum volume of receivables from the factoring agreements concluded is €25 million in the reporting year (previous year: €15 million).

The requirements of IFRS 9.3.2.1 for derecognition of receivables are satisfied, as the receivables have been transferred in accordance with IFRS 9.3.2.4 a). The evaluation pursuant to IFRS 9.3.2.6 concluded that substantially all risks and rewards were transferred. KAP AG continues to perform receivables management (servicing) for the factored receivables. Although KAP AG is not entitled to dispose over the receivables in any way other than for purposes of accounts receivable management, the Company has retained control of the factored receivables, as the factors are not actually able to resell the receivables bought.

KAP AG continues to recognise the trade receivables sold to the extent of its continuing involvement, i.e. at the maximum amount of its liability for the late payment risk inherent in the receivables sold, and also recognises a corresponding other financial liability. The continuing involvement amounted to €92.5 thousand in the financial year (previous year: €50 thousand).

The interest expenses and fees incurred are disclosed in the financial result. The fair value of interest payable is €375 thousand in the financial year (previous year: €28 thousand).

The trade receivables that are to be sold under the factoring programme have short terms to maturity.

Details of the KAP Group's methods used for estimating expected credit losses on trade receivables and the calculation of the loss allowance are presented in note 43 in the section on credit and default risk.

15. INCOME TAX ASSETS

The disclosure as of the reporting date relates to reimbursement rights from excess advance payments made.

16. OTHER RECEIVABLES AND ASSETS

in € thousands	31/12/2022	31/12/2021
Financial receivables from		
– third parties	2,075	16
Other assets	9,217	10,240
	11,292	**10,256**

The KAP Group classifies its other receivables 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.

The other assets largely concern tax reimbursement rights, 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 €1,440 thousand (previous year: €1,865 thousand), the other assets are of a financial nature.

At the date on which they are sold and transferred to the factor, the receivables are derecognised and the security deposit is recognised under other financial assets. For the factored receivables, an amount equivalent to 7% of the receivables' nominal amount is regularly withheld from the purchase price as security. On initial recognition, the other financial assets are measured at fair value plus transaction costs and they are subsequently accounted for at amortised costs net of any loss allowances. As of 31 December 2022, other financial assets amounted to €1,304 thousand (previous year: €693 thousand).

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 approximates their fair value.

Details of the KAP Group's methods used for estimating expected credit losses on other financial assets measured at amortised cost and the calculation of the loss allowance are provided in note 43 in the section on credit and default risk.

17. 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 €684 thousand (previous year: €407 thousand) are held by MEHLER ENGINEERED PRODUCTS (Suzhou) Co. Ltd., Suzhou, China, and are subject to the local foreign exchange restrictions. They are therefore not available for all transactions.

18. NON-CURRENT ASSETS AND DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS

The commercial property in Fulda, which had been reported under non-current assets held for sale in the previous year with a carrying amount of €524 thousand, was sold in June 2022. The proceeds from the sale amount to €3,029 thousand and are included in consolidated profit/loss after taxes in the consolidated statement of comprehensive income/loss. The reason for the sale was to concentrate on the core business.

The non-current assets held for sale as of 31 December 2022 amounting to €1,075 thousand concern the commercial property in Stadtallendorf, which is to be sold in the first half of 2023. The reason for the planned sale is to concentrate on the core business.

In the third quarter of 2022, the Management Board and Supervisory Board decided to sell part of the **flexible films** segment. The operating entities to be divested were combined in a disposal group. The entities are CaPlast Kunststoffverarbeitungs GmbH, Nordkirchen, with its investee AerO Coated Fabrics B.V., Tilburg, Netherlands, and NOW Contec GmbH & Co. KG, Waldfischbach-Burgalben. The negotiations for the sale commenced already in the past financial year and the agreement is expected to be closed in the first half of 2023. The signing took place on 6 March 2023. The net proceeds from the sale are in the upper double-digit million euro range.

The values related to the disposal group have been reclassified within the balance sheet and are shown as a separate item. Intercompany transactions were eliminated such that only external assets and liabilities are shown under non-current assets and disposal group held for sale in the consolidated statement of financial position.

Effect of the disposal group on the statement of financial position:

in € thousands	2022
Intangible assets	–13,675
Property, plant and equipment	–17,444
Deferred tax assets	–189
Inventories	–11,004
Trade receivables and other assets	–5,128
Cash and cash equivalents	–1,181
Total assets	**–48,620**
Assets of the disposal group	**48,620**
Deferred tax liabilities	–1,220
Other non-current liabilities	–1,682
Current provisions	–2,025
Current financial liabilities	–625
Other current liabilities	–6,599
Total liabilities	**–12,150**
Liabilities of the disposal group	**12,150**

With the divestment, KAP is continuing to pursue its strategy as planned and increasing its financial flexibility to implement targeted high-growth add-on acquisitions or major projects in its core segments. In doing so, the Company continues to stay true to its purpose of increasing value in the interest of its stakeholders.

The closing of the sale, and accordingly the date of deconsolidation, is scheduled to take place in the second quarter of 2023.

Earnings from discontinued operations include income from released contingent liabilities of €1,037 thousand (previous year: €595 thousand). This income relates to 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.

19. EQUITY AND RESERVES

The development of equity is shown in the separate consolidated statement of changes in equity.

Subscribed capital

The subscribed capital amounts to €20,195,663.80 (previous year: €20,195,663.80) and is divided into 7,767,563 (previous year: 7,767,563) no-par-value bearer shares that each carry the same rights, and specifically the same voting rights. Each no-par value share entitles the holder to 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 initially 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 contributions in cash and/or 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 approval of the Supervisory Board.

In the reporting year, the Management Board and Supervisory Board did not decide to issue any new shares (previous year: none).

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 retained earnings

Consolidated retained earnings contains the profits generated in past periods by entities included in the consolidated financial statements less distributions to the shareholders of KAP AG.

Non-controlling interests

Non-controlling interests comprise the shares attributable to other shareholders in assets, liabilities, profit/loss, the pro rata differences arising from currency translation of the separate 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 Company'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. 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 equity actions, acquisitions and divestments, restructuring measures and the reduction of financial liabilities.

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

20. SHARE-BASED PAYMENTS

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 granting of virtual shares. The share-based payment is accounted for in accordance with the requirements 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 the payment is accounted for pursuant to IFRS 2.42 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 technique. As in the previous year, the bonus is paid out in cash only.

The amount of the annual share bonus depends on specific profits of KAP AG or other performance indicators that are determined by KAP AG's Supervisory Board at its reasonable discretion each year. The target achievement can be between 0% and 200%, with 100% target achievement corresponding to a share bonus of €50,000. The number of shares is calculated by dividing the equity component by the unweighted average Xetra closing price of the KAP share for the last 20 trading days prior to approval of the separate financial statements of KAP AG for the respective year. Target achievement of 100% is assumed for the 2022 financial year, which is why the provision for the share bonus is €50,000. This provision was recognised as an expense.

Similar to the annual bonus, the number of virtual shares awarded to the members of the Management Board depends on specific achievements of KAP AG or other performance indicators that are determined by KAP AG's Supervisory Board at its reasonable discretion each year. The target achievement can be between 0% and 200%. For Eckehard Forberich, 100% target achievement 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 achievement 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 allocated following approval of the separate financial statements of KAP AG for the respective year.

The number of virtual shares is determined by dividing the reference amount by the unweighted average 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 allocated 5,628 virtual shares on 13 February 2021 and Marten Julius was allocated 1,394 virtual shares. The unweighted average Xetra closing price used for the allocation is €13.88 for Eckehard Forberich and €13.45 for Marten Julius (tranche 1). Based on a reference amount of €187,500 for Eckehard Forberich and a reference amount of €150,000 for Marten Julius, Eckehard Forberich was allocated 9,398 virtual shares on 27 April 2022 and Marten Julius was allocated 7,519 virtual shares. The unweighted average Xetra closing price used for the allocation is €19.95 for both Eckehard Forberich and Marten Julius (tranche 2). The share price is determined over the calendar year for which the virtual shares have been allocated.

The vesting period for the virtual shares is four years after allocation. After the end of the vesting period, a cash settlement is made for each virtual share in the amount of the unweighted average Xetra closing price of the KAP share for the last 30 trading days before the end of the vesting period, which closing price is adjusted for dividends and subscription rights. Notwithstanding this, a cap has been agreed for both 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 allocated using the following parameters:

	Tranche 1		Tranche 2
in €	31/12/2022	31/12/2021	31/12/2022
KAP share price	15.25	22.80	15.25
Remaining term in years	2.12	3.12	3.32
Risk-free interest rate	2.59%	–0.62%	2.53%
Volatility	37.57%	41.10%	40.32%
Expected dividend	0.00%	0.00%	0.00%
Maximum amount per virtual share Eckehard Forberich	74.03	74.03	53.20
Maximum amount per virtual share Marten Julius	71.74	71.74	53.20
Value per virtual share Eckehard Forberich	17.26	23.72	15.58
Value per virtual share Marten Julius	17.25	23.66	15.58

The KAP share price of €15.25 was determined on the Xetra trading platform as of 30 December 2022. When paying out the virtual shares, it is assumed that the dividends distributed since allocation of the virtual shares have been reinvested. Since allocation of the virtual shares from tranche 1, dividends amounting to €2.75 per share have been distributed and since allocation of the virtual shares from tranche 2 a dividend of €1.00 per share has 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 2022, the fair value of a virtual share from tranche 1 was €17.26 (previous year: €23.72) for Eckehard Forberich and €17.25 (previous year: €23.66) for Marten Julius. Market conditions were not taken into account when calculating the fair value of virtual shares.

Of the virtual shares allocated in tranche 1, 2,644 (previous year: 1,237) of the shares allocated to Eckehard Forberich and 655 (previous year: 306) of the shares allocated to Marten Julius had vested as of 31 December 2022. The fair value of the virtual shares already vested is thus €45,633 (previous year: €29,342) for Eckehard Forberich and €11,299 (previous year: €7,240) for Marten Julius.

Of the virtual shares allocated in tranche 2, 1,596 of the shares allocated to Eckehard Forberich and 1,277 of the shares allocated to Marten Julius had vested as of 31 December 2022. The fair value of the virtual shares already vested is thus €24,875 for Eckehard Forberich and €19,901 for Marten Julius.

In the 2022 financial year, a total expense of €65,103 (previous year: €36,606) was incurred for the virtual shares.

As of the reporting date, a provision totalling €101,709 (previous year: €36,606) was recognised for the virtual shares allocated.

21. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

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

in € thousands	31/12/2022	31/12/2021	31/12/2020	31/12/2019	31/12/2018
Pension obligations	12,713	16,510	18,094	19,682	17,829
Similar obligations	163	167	186	218	251
	12,876	**16,677**	**18,280**	**19,900**	**18,080**

Pension obligations

The company pension scheme consists of defined contribution and defined benefit pension plans. The plans are exposed to largely similar risks. Plan assets are invested in different asset classes, including real estate. The different asset classes are exposed to specific risks, such as the real estate market risk. 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 Company. Provisions are recognised for the obligations from entitlements and current benefits to eligible and active 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. As in previous years, all obligations were measured by actuaries as of 31 December 2022.

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 of €22 thousand (previous year: €19 thousand) are recognised as pension cost for the respective year.

There are significant pension obligations from defined benefit pension commitments at Mehler Aktiengesellschaft in the amount of €7,077 thousand (previous year: €8,939 thousand), MEHLER ENGINEERED PRODUCTS GMBH in the amount of €1,806 thousand (previous year: €2,293 thousand) and Gear Motion GmbH in the amount of €3,261 thousand (previous year: €4,518 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. This pension plan has been closed to new entrants and is continued unchanged for the employees participating when it was closed.

For the KAP Group, risks from pension commitments arise primarily from changes in the actuarial interest rate, the adjustment of current benefits, inflation risks 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 solely 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	2022	2021	2020	2019	2018
Present value of unfunded obligations	14,009	18,001	19,556	21,479	19,588
Fair value of plan assets	–1,296	–1,491	–1,462	–1,797	–1,759
Pension obligations as of 31 December	**12,713**	**16,510**	**18,094**	**19,682**	**17,829**

Development of pension provisions

in € thousands	2022	2021	2020	2019	2018
Balance as of 1 January	**16,510**	**18,094**	**19,682**	**17,829**	**18,199**
Pensions paid	–963	–1,065	–1,095	–1,079	–1,091
Increase	–2,834	–359	67	2,951	694
Addition	–	–	–	–	27
Disposal	–	–	–542	–	–
Reversal	–	–152	–	–	–
Exchange differences	–	–8	–17	–19	–
Balance as of 31 December	**12,713**	**16,510**	**18,094**	**19,682**	**17,829**
thereof pension provisions	14,009	18,001	19,556	21,479	19,588
thereof assets	–1,296	–1,491	–1,462	–1,797	–1,759

Pension obligations of €1,067 thousand (previous year: €877 thousand) are due within one year. An amount of €2,899 thousand (previous year: €1,875 thousand) falls due in more than one year, but within five years. After more than five years, an amount of €8,910 thousand (previous year: €13,924 thousand) falls due.

Pension cost

in € thousands	2022	2021	2020	2019	2018
Current service cost	13	49	25	24	24
Interest cost	176	170	172	319	327
Deferred compensation	–	–	–	–	–
Past service cost	–	–	–	–	–
Components recognised through profit or loss	**189**	**219**	**197**	**343**	**350**
Increase in actuarial gains (–)/ losses (+) recognised directly in equity					
– from changes in financial assumptions	–4,419	–460	–	2,442	–
– from changes in demographic assumptions	–	–	–	–	254
– from experience adjustments	1,202	–386	–96	189	115
Actuarial gains (–)/losses (+) from plan assets	–32	–34	–34	–23	–22
Effect of asset ceiling	226	–	–	–	–4
Components recognised directly in equity	**–3,023**	**–880**	**–130**	**2,608**	**343**
	–2,834	**–661**	**67**	**2,951**	**694**
thereof increase	–2,834	–359	67	2,951	694
thereof reversal	–	–	–	–	–

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

The table below shows the breakdown of the defined benefit obligation according to contributing employees, former employees with vested entitlements, and beneficiaries/pensioners:

in € thousands	31/12/2022	31/12/2021
Contributing employees	1,658	2,701
Former employees	2,180	3,371
Pensioners	10,171	11,929
Total obligation	**14,009**	**18,001**

The actual return on plan assets amounted to €48 thousand in the reporting year (previous year: €47 thousand).

Changes in plan assets from 1 January to 31 December

in € thousands	31/12/2022	31/12/2021
Changes in plan assets		
Value of plan assets as of 1 January	1,491	1,461
Interest income on plan assets	16	13
Return on plan assets (other than amounts included in interest income)	32	34
Actual increase/contributions 1/1–31/12	–	–
Actual pensions paid	–17	–17
Reconciliation of the effect from the asset ceiling		
Asset ceiling as of 1 January	–	–
Interest on the effect from the asset ceiling	–	–
Change in the effect from the asset ceiling	–226	–
Value of plan assets as of 31 December	**1,296**	**1,491**

The plan assets to cover pension obligations comprise the following items as of the reporting date:

	31/12/2022				31/12/2021			
in € thousands	Quoted	Unquoted	Total	%	Quoted	Unquoted	Total	%
Real estate	56	–	**56**	4	54	–	**54**	4
Qualified insurance contracts	–	526	**526**	35	–	522	**522**	35
Investment funds	940	–	**940**	61	915	–	**915**	61
Total	**996**	**526**	**1,522**	**100**	**969**	**522**	**1,491**	**100**

Significant accounting and measurement bases

in %	31/12/2022	31/12/2021	31/12/2020	31/12/2019	31/12/2018
Actuarial interest rate	3.85	1.10	0.90	0.90	1.85
Expected return on plan assets	3.85	1.10	3.00	3.00	3.00
Future pension increases	2.00	1.75	1.75	1.75	1.75

The actuarial measurement factors are set out by KAP AG in agreement with the actuarial expert. The imputed adjustment interval for pensions is three years; they are adjusted based on the cost of living index.

The range used in calculating sensitivities is determined by reference to changes considered possible until the next reporting date; for this purpose a different discount rate of +/–0.50% is used.

	2022		2021	
in € thousands	Increase of 0.5 pp	Decrease of 0.5 pp	Increase of 0.5 pp	Decrease of 0.5 pp
Present value of the obligation	13,349	14,710	17,007	19,273
Interest cost	557	474	263	112
Service cost	6	7	12	15

Future cash flows

Over the next few years, the following benefit payments are expected to be made from the plans:

in € thousands	2023	2024	2025	2026	2027	> 2027
31/12/2022	1,106	1,078	1,059	1,019	990	14,737

in € thousands	2022	2023	2024	2025	2026	> 2026
31/12/2021	1,039	1,216	974	955	921	14,055

In the reporting year, the weighted average remaining duration of the pension obligation is 9.57 years (previous year: 11.04 years).

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:

in %	31/12/2022	31/12/2021	31/12/2020	31/12/2019	31/12/2018
Actuarial interest rate	9.70	9.70	9.00	9.00	9.00
Increase in healthcare costs	6.57	6.57	6.73	6.73	6.73

22. FINANCIAL LIABILITIES

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

in € thousands	31/12/2022	Thereof remaining term of more than 1 year	31/12/2021	Thereof remaining term of more than 1 year
Banks	94,781	66,502	47,236	6,730
Leases	22,790	19,182	22,524	19,946
Third parties	16	–	13	–
	117,587	**85,684**	**69,773**	**26,676**

The effective interest rates of the liabilities to banks range between 1.4% and 5.9% (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 3.25. 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, fair value does not differ significantly from their carrying amount, as the conditions governing interest payments on these loans are adjusted to current market conditions on an ongoing basis.

Financing in Germany is principally carried out via a syndicated loan with a term of four years. The interest rate depends on Euribor, the net debt to EBITDA ratio, the amount drawn down from the loan facility and the nature of its use.

23. OTHER NON-CURRENT LIABILITIES

In addition to liabilities with a remaining term of more than one year, this item includes obligations the amount and timing of which is definite, but which will fall due in more than twelve months.

24. OTHER PROVISIONS

in € thousands	1/1/2022 Restated retrospectively[1]	Exchange differences	Increase	Utilisation	Reversal	Reclassification of the disposal group	31/12/2022
Personnel	3,727	–15	3,174	2,822	663	790	2,611
Complaints and guarantees	9,367	2	477	1,631	909	1,075	6,232
Restructuring measures	125	–	222	29	–	–	318
Potential losses from pending transactions	63	–	518	–	–	–	581
Other provisions	4,138	38	714	913	179	160	3,638
	17,420	**25**	**5,105**	**5,394**	**1,751**	**2,025**	**13,380**

in € thousands	1/1/2021 Restated retrospectively[1]	Exchange differences	Increase	Utilisation	Reversal	31/12/2021 Restated retrospectively[1]
Personnel[1]	3,870	18	3,583	3,276	468	3,727
Complaints and guarantees	10,244	25	1,169	450	1,621	9,367
Restructuring measures	609	–	–	332	152	125
Potential losses from pending transactions	214	–	27	178	–	63
Other provisions[1]	2,323	50	3,201	1,070	366	4,138
	17,260	**93**	**7,980**	**5,306**	**2,607**	**17,420**

[1] See note 7 "CORRECTION OF ERRORS IN ACCORDANCE WITH IAS 8" as regards the retrospective restatement due to error.

Personnel provisions mainly include bonuses. There are uncertainties regarding the amount and timing of the outflows. These are expected to result in disbursements within one year.

The provisions for complaints and guarantees principally contain potential claims from customers relating to purchased products. There are uncertainties regarding the amount and timing of the outflows. These are expected to result in disbursements within one year.

Provisions for potential 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 €679 thousand (previous year: €2,916 thousand) will have a term of more than one year.

25. 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.

26. INCOME TAX LIABILITIES

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

27. OTHER LIABILITIES

in € thousands	31/12/2022	31/12/2021 Restated retrospectively [1]	1/1/2021 Restated retrospectively [1]
Contract liabilities	389	60	7
Other liabilities	10,550	11,279	7,449
Personnel-related liabilities (annual leave/ overtime/ severance payments)	4,185	5,497	9,840
	15,124	**16,836**	**17,296**

[1] Presentation changed.
See note 7 "CORRECTION OF ERRORS IN ACCORDANCE WITH IAS 8"
as regards the retrospective restatement due to error.

The revenue recognised in relation to contract liabilities in the reporting period that was included in contract liabilities at the beginning of the period amounted to €61 thousand (previous year: €1,003 thousand).

The item mainly includes accrued wages and salaries and liabilities for social security of €612 thousand (previous year: €603 thousand) as well as deferred income from prepayments received for contracts with a term beyond the reporting date. Apart from the deferred income of €949 thousand (previous year: €1,030 thousand), the other liabilities are of a financial nature.

Other liabilities include a liability of €3,023 thousand (previous year: €3,512 thousand) from a purchase option for further interests in subsidiaries.

Other liabilities have a remaining term of up to one year.

CONSOLIDATED STATEMENT OF INCOME

28. SALES REVENUE

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

in € thousands	2022	2021
Continuing operations	433,469	345,617
Discontinued operations	–	7,336
	433,469	**352,953**

The breakdown of revenue by product group and geographical area is presented in segment reporting under note 46.

29. OTHER OPERATING INCOME

in € thousands	2022	2021
Insurance compensation	6,941	5,923
Reversal of impairment losses on property, plant and equipment	–	6,231
Disposal of non-current assets held for sale	3,029	16,647
Rental income from investment properties	720	3,712
Exchange rate gains	2,462	1,363
Reversal of provisions	1,933	3,405
Rental income	1,063	1,060
Disposal of non-current assets	2,021	2,398
Reversal of loss allowances for expected losses	275	356
Other income	10,332	5,986
	28,776	**47,081**

The proceeds from the disposal of non-current assets held for sale relate to the last remaining building section of the commercial property in Fulda. Other income essentially includes €7 million from a subsequent purchase price payment for the commercial property in Fulda.

The insurance compensation relates to the fire damage at our sites in Heinsdorfergrund, Germany, and in the United States (both in the **surface technologies** segment).

30. COST OF MATERIALS

in € thousands	2022	2021
Raw materials and supplies	217,102	166,289
Purchased services	40,713	26,963
	257,815	**193,252**

31. PERSONNEL EXPENSES

in € thousands	2022	2021
Wages and salaries	87,594	72,214
Social security and pension cost	15,622	14,817
	103,216	**87,031**

Social security and pension cost includes expenses of €3,436 thousand (previous year: €3,158 thousand) for statutory pension insurance and of €562 thousand (previous year: €525 thousand) for defined contribution plans. Personnel expenses contain government grants of €184 thousand (previous year: €527 thousand).

On average, the Group employed:

	2022	2021
Wage earners	1,857	1,839
Salaried employees	836	819
	2,693	**2,658**
Trainees	39	42
	2,732	**2,700**

32. DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES

in € thousands	2022	2021
Intangible assets	8,030	3,803
Property, plant and equipment	28,785	21,272
Investment properties	64	76
	36,879	**25,151**

Depreciation, amortisation and impairments includes impairment losses of €2,977 thousand recognised on intangible assets and of €962 thousand recognised on property, plant and equipment. Goodwill of the **surface technologies** segment was written down by €3.0 million to a recoverable amount of €0.9 million. This impairment loss was attributable to a general negative economic development and an associated low level of cash flows from the respective customers. The value corresponds to value in use. The amount of €962 thousand relates to the **surface technologies** segment and mainly concerns impairment losses of €665 thousand recognised to write machinery down to its recoverable amount of €75 thousand, which is its value in use. The impairment was charged on account of a customer project that was discontinued. A further €297 thousand relates to land and buildings in the **precision components** segment. The impairment losses were due to negative political developments in the respective country.

33. OTHER OPERATING EXPENSES

in € thousands	2022	2021[1]
Maintenance	12,003	14,251
Legal and consulting costs	9,986	12,200
Outgoing freight	9,735	7,544
Packaging material	5,773	3,749
Insurance	2,435	2,532
Exchange rate losses	2,783	1,810
Complaints and guarantees	1,377	1,641
Commission	1,523	1,339
Other taxes	936	1,278
Additions to loss allowances for expected losses	508	1,198
Expenses for investment properties	160	1,002
Rent and leases	914	740
Losses on the disposal of non-current assets	135	320
Other expenses	16,320	13,064
	64,588	**62,668**

[1] The previous-year other operating expenses have been restated for adjustments in the it/services segment.

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

34. INTEREST RESULT

in € thousands	2022	2021
Interest income		
Third parties	114	46
Equity investments	–	–
Other	184	15
	298	**61**
Interest cost		
Third parties	–3,202	–1,842
Unwinding the discount on pension obligations	–176	–158
Leases	–274	–398
Other	–406	–193
	–4,058	**–2,591**
Interest result	**–3,760**	**–2,530**

35. OTHER FINANCIAL RESULT

in € thousands	2022	2021
Exchange rate losses from financing activities	–2,155	–103
Income from non-consolidated affiliated entities	–	426
Other financial result	497	–927
	–1,658	**–604**

The other financial result item largely concerns the subsequent measurement of the other liability from the purchase option for further interests.

The income from non-consolidated affiliated entities of €0 thousand (previous year: €426 thousand) comprised a dividend payout in the previous year.

36. INCOME TAXES

in € thousands	2022	2021
Current income taxes	–2,952	–7,118
Deferred taxes – temporary measurement differences	–551	–1,098
Deferred taxes – unused tax losses	–431	1,576
	–3,934	**–6,640**

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

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

For foreign subsidiaries, the income tax rates are used that apply or are expected to apply in the respective country. They are between 6% and 38% (previous year: 9% and 38%).

The tax expense for the financial year can be reconciled with the consolidated profit/loss as follows:

in € thousands	2022	2021
Earnings from continuing operations before income taxes (previous year: consolidated profit/loss before income taxes)	1,209	28,292
KAP Group income tax rate	30%	30%
Expected income tax asset	**363**	**–8,488**
Variance due to different tax rates	525	999
Tax reductions (+) due to tax-exempt income	488	1,030
Tax increases (–) due to non-tax-deductible expenses	–3,659	–2,984
Income taxes from previous years	106	–442
Change in reduction of deferred tax assets	–673	2,503
Other effects	–358	741
Income taxes according to the statement of income	**–3,934**	**–6,640**
Effective tax rate	**>100%**	**23.50%**

Due to actuarial gains and losses being recognised in other comprehensive income, deferred taxes of €907 thousand (previous year: €191 thousand) were also recognised directly in equity under revenue reserves.

37. NON-CONTROLLING INTERESTS

The disclosure relates to the shareholders of various subsidiaries other than KAP AG. The share of consolidated profit/loss attributable to non-controlling interests contains the compensation obligation from a profit and loss transfer agreement.

38. EARNINGS PER SHARE

Earnings per share is calculated by dividing the consolidated profit/loss attributable to the shareholders of KAP AG by the weighted average number of the shares outstanding during the reporting year.

	2022	2021
Consolidated profit/loss attributable to the shareholders of KAP AG (€ thousands)	–1,725	39,843
Weighted average shares (in thousands)	7,768	7,768
Earnings per share (€)		
thereof from continuing operations	–0.35	2.79
thereof from discontinued operations	0.13	2.35
	–0.22	**5.14**

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

OTHER DISCLOSURES

39. EXPENSES FOR RESEARCH AND DEVELOPMENT

Expenses for research and development in the reporting year amounted to €1,883 thousand (previous year: €1,867 thousand).

40. CONTINGENT LIABILITIES

There is a contingent liability 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. As insufficient data is available, it is currently not possible to accurately estimate the amount. This does not constitute a material event for the Group that could jeopardise it.

41. FINANCIAL COMMITMENTS

The following contingent liabilities could in future lead to an outflow of resources embodying economic benefits. They were measured at nominal value.

in € thousands	2022	2021
Guarantees	395	879
Warranties	125	–
Total	**520**	**879**

42. OTHER FINANCIAL OBLIGATIONS

in € thousands	2022	2021
Intangible assets	4	46
Property, plant and equipment	3,105	9,097
Investment properties	–	590
Total	**3,109**	**9,733**

The other financial obligations in connection with non-current assets are obligations from binding orders placed. The sharp decrease for property, plant and equipment results above all from the previous year including the planned expansion of our site in Hessisch Lichtenau in the **engineered products** segment. The decrease for investment properties is attributable to their disposal or reclassification to assets held for sale.

Other financial liabilities include excess payments made by the factor in connection with the factoring programme of €700 thousand (previous year: €0 thousand). These constitute current liabilities.

43. FINANCIAL INSTRUMENTS

The tables below present the fair value hierarchy in accordance with IFRS 13 for KAP AG's assets and liabilities measured at fair value as of 31 December 2022 and 31 December 2021:

Statement of financial position item	IFRS 9 measurement category	Carrying amount	Fair value hierarchy level 1	Fair value hierarchy level 2	Fair value hierarchy level 3	Market value
in € thousands		31/12/2022				31/12/2022
ASSETS						
Shares in affiliated entities	At fair value through profit or loss	–	–	–	–	–
Shares in other investees	At fair value through profit or loss	54	–	–	–	54
Other loans	Financial assets at amortised cost	104	–	–	–	104
Reinsurance claims from life assurance policies	Financial assets at amortised cost	226	–	–	–	226
Trade receivables	Financial assets at amortised cost	45,921	–	–	–	45,921
Other receivables and assets	Financial assets at amortised cost	11,292	–	–	–	11,292
Cash and cash equivalents		9,750	–	–	–	9,750
EQUITY AND LIABILITIES						
Financial liabilities	Financial liabilities at amortised cost	117,587	–	–	–	116,477
Other non-current liabilities	Financial liabilities at amortised cost	381	–	–	–	381
Trade payables	Financial liabilities at amortised cost	36,506	–	–	–	36,506
Other liabilities	Financial liabilities at amortised cost	10,939	–	–	–	10,939

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

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

Fair value hierarchy level 2: Market 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 level 3: Market values were determined on the basis of parameters for which no observable market data was available.

For cash and cash equivalents as well as for those disclosed under other non-current financial assets, fair value is equivalent to their carrying amount.

Gains and losses from 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	2022	2021
Financial assets and financial liabilities at amortised cost		
Interest income	115	47
Impairments (–)/ reversals of impairment losses	–508	–898
Financial liabilities		
Interest expenses	–3,492	–2,237
Exchange rate gains and losses (–) from financing activities	–2,185	–103

The impairment losses of €508 thousand as comprise the following: reversal of loss allowance for expected losses of €–275 thousand (previous year: €–368 thousand), bad debts of €275 thousand (previous year: €69 thousand) and increases in the loss allowance for expected losses of €508 thousand (previous year: €1,198 thousand). Interest income from financial assets at amortised cost is calculated using the effective interest rate on the financial asset's gross carrying amount. 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). The loss allowances applied is reported under other operating expenses.

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 for other financial assets recognised at amortised cost if the counterparties cannot meet their payment obligations.

Also see note 5 "ACCOUNTING POLICIES."

The expected loss rates for trade receivables are based on the payment profiles of revenue over a period of 36 months before 31 December 2022 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 2022 was determined as follows for trade receivables:

31/12/2022

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	38,560	8,329	508	124	**47,521**
Loss allowances	1,144	81	197	178	**1,600**

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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**

Liquidity risk

Solvency is ensured at all times through liquidity planning, a cash reserve and confirmed loan facilities. 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 advantages offered by factoring are above all the improvement in liquidity and the transfer of the default risk to the factor. In addition to managing liquidity, KAP AG uses the factoring programme to optimise working capital and improve its ability to plan cash flow. For additional information, reference is made to the RISK REPORT provided in the management report.

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

31/12/2022

in € thousands	Remaining term of up to 1 year	Remaining term of between 1 and 5 years	Remaining term of more than 5 years	Total
Banks	28,279	66,502	–	94,781
Leases	3,608	16,100	3,082	22,790
Third parties	16	–	–	16
Trade payables	36,506	–	–	36,506
Other liabilities	10,939	–	–	10,939
	79,349	**82,602**	**3,082**	**165,033**

31/12/2021

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

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.

The Group generally aims to hedge these risks by means of closed positions in which values or cash flows from non-derivative financial instruments match each other. To further reduce the risk, conditional forward transactions are concluded in the form of swaps when required.

Currency risk

For KAP AG as a group with global operations, foreign exchange risks arise on various sales and procurement markets from the perspective of the respective local entities. In addition, there are occasionally risks associated with foreign companies' financing activities with KAP AG. We consider these risks to be manageable compared with the costs incurred in concluding hedges.

For additional information about the risks, reference is made to the COMBINED MANAGEMENT REPORT.

Key foreign currency positions as of 31 December 2022:

	Israeli shekel		US dollar		Czech koruna	
Thousands	ILS	EUR	USD	EUR	CZK	EUR
ASSETS						
Trade receivables	4,593	1,223	17,352	16,234	75	3
Other assets	4,890	1,292	279	300	476	20
Cash and cash equivalents	382	102	5,898	5,524	706	29
Total	**9,865**	**2,617**	**23,529**	**22,058**	**1,257**	**52**
EQUITY AND LIABILITIES						
Trade payables	19,617	5,292	7,002	6,550	3,776	156
Financial liabilities	3,943	1,050	49,463	46,331	–	–
Total	**23,560**	**6,342**	**56,465**	**52,881**	**3,776**	**156**
Revenue	**29,865**	**8,449**	**70,203**	**70,108**	**977**	**40**

Key foreign currency positions as of 31 December 2021:

	US dollar		British pound		Russian rouble	
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**

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 2022 financial year, more than 10% of the **engineered products** segment's revenue and of the **precision components** segment's revenue was attributable to one customer. In the previous year, 10% of the **engineered products** segment's revenue was attributable to this customer.

Interest rate risk

Interest rate risks arise when variable-rate loans are taken out.

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:

	2022		2021	
in € thousands	Increase of 0.5 pp	Decrease of 1.0 pp	Increase of 0.5 pp	Decrease of 1.0 pp
Interest cost	479	–958	47	–95

44. EVENTS AFTER THE REPORTING PERIOD

On 6 March 2023, KAP AG and its subsidiary Mehler AG entered into an agreement to sell a subsection of the **flexible films** segment to a third party. The operating companies to be divested are CaPlast Kunststoffverarbeitungs GmbH with its investee AerO Coated Fabrics B.V. and NOW Contec GmbH & Co. KG. The net proceeds from the sale are in the upper double-digit million euro range. The transaction's closing is planned for the second quarter of 2023.

There were no other significant events since 31 December 2022 expected to have a material influence on the financial position, cash flows or financial performance of the KAP Group or KAP AG.

45. 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 change in cash and cash equivalents due to exchange-rate, consolidated-group and valuation effects 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. As of 31 December 2022, cash and cash equivalents consisted of cash funds.

Cash and cash equivalents decreased by €20 thousand (previous year: decreased by €199 thousand) as a result of exchange rate changes. Cash flow from operating activities comprises:

in € thousands	2022	2021
Interest		
Interest paid (–)	–3,849	–2,413
Interest received	298	60
	–3,551	**–2,353**
Income taxes		
Income taxes paid (–)	–2,246	–6,039
Income taxes refunded	106	1,098
	–2,140	**–4,941**

The change in liabilities from financing activities was as follows:

			Non-cash changes		
in € thousands	1/1/2022	Net changes in cash	Exchange rate changes	Other changes	31/12/2022
Banks	47,236	46,762	783	0	94,781
Leases	22,524	2,726	–153	–2,307	22,790
Other	14	1	0		15
	69,776	**49,489**	**630**	**–2,307**	**117,586**

			Non-cash changes		
in € thousands	1/1/2021	Net changes in cash	Exchange rate changes	Other changes	31/12/2021
Banks	55,857	–8,639	18	–	47,236
Leases	13,968	8,579	8	–31	22,524
Other	754	–740	–	–	14
	70,579	**–800**	**26**	**–31**	**69,776**

In the financial year, KAP AG took part in a factoring programme. The associated cash flows are presented under cash flow from operating activities and represent the economic substance of the transactions. The total amount of trade receivables sold under the factoring programme is reported in note 14 "TRADE RECEIVABLES."

Payments of €28.9 million were made for the acquisition of Haogenplast, which were offset against Haogenplast's cash of €1.9 million. There were no other purchase price liabilities from the transaction as of the end of the period.

Subject to approval, another undrawn loan facility of €50.0 million is available for further acquisitions.

46. SEGMENT REPORTING

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 operating 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**

The segments of **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 revenue to the corresponding figures of the Group is shown in the "SEGMENT REPORTING BY OPERATING SEGMENT" 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 (arm's-length principle).

In the **engineered products** segment, revenue with one customer amounted to €50,968 thousand (previous year: €22,200 thousand).

In the **precision components** segment, revenue with one customer amounted to €2,543 thousand (previous year: €0 thousand).

Reference is made to note 32 "DEPRECIATION, AMORTISATION AND IMPAIRMENTS" for the impairment losses recognised at segment level.

The segment profit/loss is defined as earnings before interest, taxes, depreciation and amortisation and the gains/losses from assets and liabilities of discontinued operations. At group level, segment EBITDA corresponds to the EBITDA of the Group.

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

The reconciliation to EBITDA includes the elimination of intercompany profits and losses, receivables and liabilities and also expenses and revenue that cannot be allocated to the operating segments.

In the previous year, impairment losses of €2,977 thousand were recognised in the **surface technologies** segment due to the impairment tests carried out at the end of the year.

Revenue, non-current assets and capital expenditure

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 capital expenditure was determined according to the geographical location of the entity concerned. Capital expenditure includes the acquisition cost of intangible assets and property, plant and equipment.

SEGMENT REPORTING BY OPERATING SEGMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2022

	engineered products		flexible films		surface technologies		precision components	
in € thousands	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Revenue	**145,703**	**118,041**	**177,085**	**128,354**	**65,288**	**57,593**	**45,644**	**38,844**
Segment profit/loss/ EBITDA	6,702	15,023	22,282	18,061	8,907	10,998	–528	2,171
Depreciation, amortisation and impairments	5,832	4,320	8,825	4,105	17,081	12,176	4,337	3,833
Operating result/ EBIT	870	10,703	13,457	13,956	–8,174	–1,177	–4,865	–1,662
Capital expenditure[1]	7,909	5,409	9,183	4,135	7,898	15,438	3,900	6,504
Working Capital	35,375	35,176	45,915	24,204	8,520	4,358	9,473	12,147
Employees as of 31 December	886	815	516	375	833	750	638	636

	Holding company		Consolidation[2]		Earnings from continuing operations	
in € thousands	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Revenue	**1,856**	**4,288**	**–2,107**	**–1,502**	**433,469**	**345,617**
Segment profit/loss/ EBITDA	5,584	12,933	560	–2,610	43,507	56,576
Depreciation, amortisation and impairments	739	717	65	1	36,879	25,151
Operating result/EBIT	4,845	12,216	495	–2,611	6,628	31,426
Capital expenditure[1]	1,091	111	–	–	29,981	31,597
Working Capital	–1,352	–2,400	–	–	97,931	73,485
Employees as of 31 December	61	56	–	–	2,934	2,632

[1] Relates to intangible assets and property, plant and equipment.
[2] In addition to consolidation items, in the previous year consolidation also related to corrections in connection with the discontinued it/services business.

SEGMENT REPORTING BY GEOGRAPHIC AREA FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2022

	Revenue with third parties [1]		Segment assets		Capital expenditure [2]	
in € thousands	2022	2021	2022	2021	2022	2021
Germany	133,267	124,173	160,951	171,783	18,550	16,593
Rest of Europe	203,613	155,409	100,953	97,159	4,186	5,481
North/South America	56,934	33,644	47,184	33,989	3,397	7,779
Asia	39,273	31,829	90,186	31,395	3,747	1,743
Other countries	382	562	95	119	–	–
Consolidation	–	–	–	–	–	–
Continuing operations	**433,469**	**345,617**	**399,378**	**334,426**	**29,981**	**31,597**

As the figures are presented in thousands of euros, the numbers may not add up due to rounding differences.
[1] Segment revenue with external customers by geographic area.
[2] Investments in intangible assets and property, plant and equipment.

ADDITIONAL INFORMATION ON SEGMENT REPORTING

in € thousands	2022	2021
Segment profit/loss/EBITDA	**43,507**	**56,577**
Amortisation and impairment of intangible assets and depreciation and impairment of property, plant and equipment and investment property	–36,879	–25,151
Operating result/EBIT	**6,627**	**31,426**
Interest result	–3,760	–2,530
Other financial result	–1,658	–604
Financial result	**–5,418**	**–3,134**
Earnings from continuing operations before income taxes	**1,209**	**28,292**
Income taxes	–3,934	–6,640
Earnings from continuing operations	**–2,725**	**21,652**
Earnings from discontinued operations after taxes	1,037	18,205
Consolidated profit/loss after taxes	**–1,688**	**39,857**
Non-controlling interests	–37	–14
Consolidated profit/loss attributable to the shareholders of KAP AG	**–1,725**	**39,843**

47. RELATED PARTIES

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

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 has amounted to 29.89% (1,980,000 voting rights) since that date.

Mr Rüdiger Heiche and Mr Gunter Heiche, Schwaigern, Germany, each notified us in writing on 14 September 2018 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 2018 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) no. 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) no. 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. CSP Diamant Luxco 1 S.à r.l is registered with the Luxembourg Trade and Companies Register under number B 210.172. The consolidated annual accounts are filed with the Registry of Commerce and Companies ("Registre de commerce et des sociétés") and published in accordance with the provisions of Luxembourg law. It is available there.

The consolidated financial statements of KAP AG, Edelzeller Strasse 44, 36043 Fulda, Germany, are published in the Federal Gazette ("Bundesanzeiger") under number HRB 5859 of the Fulda District Court.

Individuals are considered to be related parties if they are members of KAP AG's Management Board or Supervisory Board 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 is presented in note 48.

The mandates of the members of the Management Board and of the members of the Supervisory Board of KAP AG are listed under note 48.

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	2022	2021
PARENT COMPANY		
Goods and services provided and received		
Other expenses	1,020	995
Receivables and liabilities		
Trade payables	70	70
OTHER RELATED COMPANIES		
Goods and services provided and received		
Other expenses	26	767
Receivables and liabilities		
Trade payables	1	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. In the 2022 financial year, RB Capital Ltd., Guernsey, invoiced a total of €26 thousand (previous year: €772 thousand) for brokerage and consulting services.

48. 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)
Physics graduate, Frankfurt, Germany
No other mandates

Marten Julius, Chief Financial Officer (CFO)
(since 1 October 2020)
Engineering graduate, Forchheim, Germany
No other mandates

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

Christian Schmitz, Chairman
Managing Director at 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]

Christoph Schoeller
(Deputy chairman since 31 August 2022)
Managing partner, Schoeller Investor Relations GmbH, Hamburg, Germany
No other mandates

Dr Markus Adams
(since 31 August 2022)
CEO of Alu Menziken Extrusion AG, Cologne, Germany

Other mandates:
Tropper Data Service AG, Leverkusen, Germany[1]

Roy Bachmann
Business graduate,
Managing Director at RB Capital Partners LLP, London, United Kingdom
No other mandates

Joachim Coers
(until 31 August 2022)
Economics graduate, Nonnenhorn, Germany

Other mandates:
Cherry AG, Munich, Germany[1] ensian group GmbH, Leutkirch im Allgäu, Germany[2]

Viktor Rehart
Investment Professional, Senior Associate at The Carlyle Group, London, United Kingdom

Other mandates:
Trans Maldivian Airways Pvt Ltd., Maldives[2]

Uwe Stahmer
(Deputy chairman until 31 August 2022)
Business graduate, Bad Zwischenahn, Germany
Management consultant
No other mandates

[1] Membership of domestic supervisory boards required by law.
[2] Membership of comparable domestic and foreign supervisory bodies.

The total remuneration granted (excluding pension commitments) for KAP AG's Management Board is calculated from the sum of

- the basic remuneration in 2022,
- the annual bonus for 2022 to be paid in 2023 at the value on the reporting date,
- the share-based payment programme (see note 20) and
- the taxable non-monetary benefits and other fringe benefits in 2022.

It is paid via Project Diamant Administration GmbH and invoiced to KAP AG. In the 2022 financial year, €1,214 thousand (previous year: €1,116 thousand) is accounted for by both the basic remuneration including fringe benefits and the annual bonus for 2022.

Further information on remuneration is presented in the remuneration report.

KAP AG itself has no employees.

Pension obligations include pension obligations for former members of the Management Board amounting to €965 thousand (previous year: €1,205 thousand).

The members of the Supervisory Board received total remuneration of €216 thousand (previous year: €127 thousand).

49. LIST OF SHAREHOLDINGS OF KAP AG IN ACCORDANCE WITH SECTION 313 (2) OF THE GERMAN COMMERCIAL CODE (HGB)

Entities included in the consolidated financial statements	Registered office	Share in capital %
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, Germany	100[1]
Convert Vliesveredlung GmbH	Waldfischbach-Burgalben, Germany	100
Convert Vliesveredlung GmbH & Co. KG	Waldfischbach-Burgalben, Germany	100[2]
Elbtal Verwaltungs GmbH	Coswig, Germany	100[2]
Elbtal Plastics GmbH & Co. KG	Coswig, Germany	100[1]
GbR Mehler AG / Daun & Cie. AG	Stadtallendorf, Germany	94
Haogenplast Ltd.	Haogen, Israel	100
KAP Beteiligungs Inc.	Martinsville, USA	100
KAP HoldCo LTD.	Tel Aviv, Israel	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	Waldfischbach-Burgalben, Germany	100[2]
NOW Contec GmbH & Co. KG	Waldfischbach-Burgalben, Germany	100
MEHLER ENGINEERD PRODUCTS PORTUGAL LDA. (formerly OLBO & MEHLER TEX PORTUGAL LDA.)	Famalicão, Portugal	100
Olbo & Mehler Tex North America, Inc.	Charlotte, United States	100
Riflex Film AB	Ronneby/Sweden	100
Steinweg Kunststoffolien GmbH i. L.	Castrop-Rauxel, Germany	75[1]

Entities included in the consolidated financial statements	Registered office	Share in capital %
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	Heinsdorfergrund, Germany	100[1]
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 Technology Kft.	Sátoraljaújhely, Hungary	100
Heiche Oberflächentechnik Beteiligungs GmbH	Leisnig, Germany	100[2]
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 Donau, Germany	100[1]
Gear Motion Grundstücksverpachtungs GmbH & Co. KG	Ehingen Donau, Germany	100[1]
Gear Motion Grundstücksverwaltungs GmbH	Ehingen Donau, Germany	100[2]
Minavto OOO	Logoisk, Belarus	100
Präzisionsteile Dresden GmbH & Co. KG	Dresden, Germany	100[1]
Präzisionsteile Dresden Verwaltungsgesellschaft mbH	Dresden, Germany	100[2]

[1] Domestic entities that exercised the exemption provided by section 264 (3) HGB and section 264 b HGB from the duty to publish their annual financial statements.

[2] Unlimited partner: Präzisionsteile Dresden Verwaltungs GmbH is the general partner of Präzisionsteile Dresden GmbH & Co. KG.
Gear Motion Grundstücksverwaltungs GmbH is the general partner of Gear Motion Grundstücksverpachtungs GmbH & Co. KG.
Convert Vliesveredlung GmbH is the general partner of Convert Vliesveredlung GmbH & Co. KG.
Elbtal Verwaltungs GmbH is the general partner of Elbtal Plastics GmbH & Co. KG.
NOW Contec GmbH is the general partner of NOW Contec GmbH & Co. KG.
Heiche Oberflächentechnik Beteiligungs GmbH is the general partner of Heiche Sachsen GmbH & Co. KG.

Entities not included in the consolidated financial statements[1]	Registered office	Share in capital %
Kammgarnbüro Gesellschaft mit beschränkter Haftung	Frankfurt am Main, Germany	32.81
Rags and Fabrics (Lesotho) (Pty.) Ltd.	Lesotho, South Africa	100.00

[1] The entities not included in the consolidated financial statements are immaterial for the presentation of the financial position, cash flows and financial performance.

50. CORPORATE GOVERNANCE STATEMENT

The Company has issued the corporate governance statement and published it on its website at www.kap.de/en/investor-relations/corporate-governance/corporate-governance-statement. This statement contains the declaration of compliance with the German Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act (AktG).

51. GROUP AUDITOR'S FEES

The group auditor's total fees calculated for the year:

in € thousands	2022	2021
Audit of financial statements	554	570
thereof previous year	–	70
Other assurance services	48	15
	602	**585**

Other assurance services mainly relate to reviews performed in connection with financing.

52. PROPOSAL FOR THE RATIFICATION OF THE SEPARATE FINANCIAL STATEMENTS AND THE DISTRIBUTION OF RETAINED EARNINGS

The Management Board proposes that the separate financial statements of KAP AG be ratified with retained earnings of €50,631,181.95 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 14 July 2023 that a dividend of €7,767 thousand (previous year: €7,767 thousand) be distributed from retained earnings and that the remaining retained earnings of €50,631 thousand be carried forward. This equates to a dividend of €1.00 (previous year: €1.00) per no-par-value share. The Management Board and the Supervisory Board will review the proposal again before the Annual General Meeting against the background of the dynamic framework conditions.

in the 2022 financial year, €7,767 thousand (previous year: €13,593 thousand) was distributed as a dividend on the basis of the resolution of the Annual General Meeting. This equates to a dividend of €1.00 (previous year: €1.00) per no-par-value share.

53. DECLARATION BY THE MANAGEMENT BOARD

The consolidated financial statements and the combined management report of KAP AG for the 2022 financial year were authorised for issue by resolution of the Management Board on 20 April 2023.

Fulda, 20 April 2023

KAP AG
Management Board

Eckehard Forberich Spokesman of the Management Board	Marten Julius CFO

INDEPENDENT AUDITOR'S REPORT

TO KAP AG, FULDA

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

OPINIONS

We have audited the consolidated financial statements of KAP AG, Fulda, and its subsidiaries (the Group), which comprise the consolidated statement of income for the period from 1 January to 31 December 2022, the consolidated statement of financial position as of 31 December 2022, the consolidated statement of comprehensive income/loss as of 31 December 2022, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of KAP AG, which is combined with the management report of the Company, for the financial year from 1 January to 31 December 2022. 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's report.

In our opinion, on the basis of the knowledge obtained in the audit,

– the accompanying 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 section 315e (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 of 31 December 2022, and of its financial performance for the financial year from 1 January to 31 December 2022, and
– the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group 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 audit opinion on the group management report does not cover the content of the parts of the group management report referred to in the "Other information" section.

Pursuant to section 322 (3) sentence 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 group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with section 317 HGB and the EU Audit Regulation (No. 537/2014, hereinafter "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 group 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 No. 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 group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS WITH AN INDEFINITE LIFE

Related information in the consolidated financial statements

The Company's disclosures on goodwill and a trademark are contained in notes 5 and 8 of the notes to the consolidated financial statements.

Matter and risk for the audit

In the consolidated financial statements of KAP AG, the item of the statement of financial position "Intangible assets" includes goodwill of €7.3 million and a brand with an indefinite useful life of €3.3 million. The Company allocates goodwill and the brand to the groups of cash-generating units that correspond to the Group's operating segments. Goodwill and intangible assets with indefinite useful lives are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the course of impairment testing, the carrying amount of the respective cash-generating unit is compared with its fair value less costs to sell. The measurement is generally based on the present value of future cash flows of the cash-generating unit to which the goodwill is allocated. The present values are determined using discounted cash flow models. The starting point for this is the Group's four-year financial plan prepared by the executive directors and approved by the Supervisory Board, which is updated with assumptions about long-term growth rates. This also takes into account expectations about future market developments and assumptions about the development of influencing macroeconomic factors. Discounting is performed using the weighted average cost of capital of the respective cash-generating unit. The outcome of this measurement is highly dependent on the assessment of the executive directors with regard to the future cash inflows of the respective group of cash-generating units, the discount rate used, the growth rate, and other assumptions concerning the macroeconomic environment, and is therefore subject to considerable uncertainty. Against this background and due to the complexity of the valuation, this matter was of particular significance in the context of our audit.

Audit approach and findings

We performed a walk-through of the processes and controls to gain an understanding of the impairment process. We have critically reviewed the identification of the cash-generating units (CGU) by the executive directors. In this context, cash-generating units are defined as groups of companies operating economically independently of each other, which represent the lowest level of independent cash flows within the Group at which goodwill is monitored for internal management purposes and which correspond to the operating segments identified in accordance with IFRS 8. We have obtained the models from the executive directors to test the recoverability of the goodwill and the brand. We reconciled the input data to the source data and checked the calculation methodology and the integrity of the model. In doing so, we tested the accuracy of the parameters used for the impairment test, the discount rate, sales growth and expected cost increases over the next four years, as well as the terminal value. We then reviewed the appropriateness of these assumptions with reference to historical data, external benchmarks and the risk of bias of the executive directors. We critically assessed the planning accuracy of the executive directors' forecasts by comparing the actual figures with the executive directors' previous forecasts. In order to determine whether an impairment loss should be recognised, we drew on, among other things, the sensitivity analyses performed by the executive directors, which include the effects of a reasonably possible change in the key underlying assumptions on impairment. In the course of this audit procedure, we also performed our own sensitivity analyses with reference to the results of our assessment of the above assumptions. As part of our audit work, we involved internal valuation specialists to assist us in assessing the appropriateness of the parameters used in the executive directors' impairment models, such as the discount rate and the long-term growth rate. We have assessed the presentation in the consolidated financial statements based on the requirements of IAS 36 "Impairment of Assets" ("IAS 36") and IAS 1 "Presentation of Financial Statements" ("IAS 1"), in particular the disclosures related to judgements, estimation uncertainties and sensitivities. Overall, the measurement parameters and assumptions applied by the executive directors are comprehensible.

ACCOUNTING TREATMENT OF NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Related information in the consolidated financial statements

The Company's disclosures on non-current assets and disposal groups held for sale are contained in note 18 "Non-current assets and disposal group held for sale" of the notes to the consolidated financial statements.

Matter and risk for the audit

In December 2022, KAP AG drew up a plan to sell part of the "**flexible films**" segment. This part includes a total of seven companies which are to be sold. Under an agreement dated February 2023, the Company reached an agreement with a buyer for the transfer of the companies. As of 31 December 2022, the part of the "**flexible films**" segment to be transferred was classified as a disposal group in accordance with IFRS 5. The change in the accounting treatment of the assets concerned resulted in extensive adjustments to the group's consolidation system. The parts to be transferred are reported in the statement of financial position as "Non-current assets and disposal group held for sale" and "Liabilities associated with disposal group". The measurement of these line items of the statement of financial position is based on the special requirements of IFRS 5, which generally require measurement at the lower of their carrying amount and fair value less costs to sell. The impairment test performed by the Company as of the transition date did not identify any need for impairment. The restatement of presentation and measurement in accordance with the requirements of IFRS 5 was of particular relevance to our audit due to the material significance of the non-current assets and disposal group held for sale.

Audit approach and findings

As part of our audit, we first assessed whether and which non-current assets and disposal groups fall within the scope of IFRS 5. For this purpose, we evaluated the provisions contained in the sales prospectuses dated December 2022 and contractual agreements with the buyer dated February 2023 and obtained information on the process. On this basis, we assessed whether the conditions are met for part of the "**flexible films**" segment to be accounted for as a disposal group from this point in time onward. We also assessed the appropriateness of the consolidation approach used for the changes in accounting treatment and verified the implementation of the changes in the consolidation system. In addition, we reconstructed the impairment test performed on the disposal group as of the transition date. We also assessed the completeness and accuracy of the disclosures required pursuant to IFRS 5. In our opinion, the estimates and assumptions made by the executive directors on which the financial statements are based are adequately documented and justified and, overall, result in an appropriate presentation in the consolidated financial statements.

PRESENTATION IN THE STATEMENT OF FINANCIAL POSITION OF THE ACQUISITION OF HAOGENPLAST LTD.

Related information in the consolidated financial statements

The Company's disclosures on business combinations are contained in note 11 "Business combinations" of the notes to the consolidated financial statements.

Matter and risk for the audit

KAP AG indirectly acquired 100% of the shares in HaOgenplast Ltd, Haogen, Israel, in the 2022 financial year. The total purchase price was €28.9 million. In the purchase price allocation, the identifiable assets of the acquiree were recognised at fair value. The purchase price reflects for the most part customer relationships of €3.3 million and the technologies acquired of €5.1 million. Deferred tax liabilities of €1.4 million were recognised on the temporary differences arising from the business combination. Taking into account the total net assets acquired, after purchase price allocation, amounting to €22.5 million, the resulting acquired goodwill totalled €6.4 million, which was allocated to the "**flexible films**" segment and is tested annually for impairment.

Due to the estimation uncertainties in the measurement of assets and liabilities as part of the purchase price allocation and the overall material impact of the acquisition on the financial position, cash flows and financial performance of KAP AG, this matter was of particular significance in the context of our audit.

Audit approach and findings

As part of our audit, we assessed the accounting treatment of the business combinations with the support of our internal valuation specialists. To this end, we first inspected and understood the contractual agreements, verified the acquisition date and reconciled the purchase price paid as consideration for the shares received with the evidence presented to us of the payments made. We assessed the underlying carrying amounts in the opening statement of financial position for the aforementioned business combination. The fair values, for example of customer relationships, which were determined by an appraiser commissioned by KAP AG, were assessed by us by reconciling the quantity structure with the original financial accounting and the parameters used. In addition, the completeness of the disclosures required pursuant to IFRS 3 was verified using checklists. On the whole, the audit procedures described and other procedures performed enabled us to satisfy ourselves that the acquisition of the respective shares was properly accounted for, taking into account the available information.

OTHER INFORMATION

The executive directors and the Supervisory Board are responsible for the other information. The other information comprises the following components of the group management report that have not been audited as to their content:

- The corporate governance statement pursuant to sections 289f and 315d HGB that is referred to in the group management report
- The separate non-financial report pursuant to section 289b (3) HGB, to which reference is made in the group management report
- The remuneration report pursuant to section 162 AktG ["Aktiengesetz": German Stock Corporation Act] to which reference is made in the group management report, and
- The disclosures in the section on the internal control system (ICS) and risk management system (RMS) that are not part of the management report and are marked as unaudited; disclosures not part of the management report are disclosures that are not required by sections 289 et seq. and 315 et seq. HGB.

The other information additionally includes:

- The statements pursuant to section 297 (2) sentence 4 in conjunction with section 315 (1) sentence 5 of the German Commercial Code (HGB) on the consolidated financial statements and group management report
- All remaining parts of the annual report – without further cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

The executive directors and the Supervisory Board are jointly responsible for the remuneration report. The Supervisory Board is responsible for the report of the Supervisory Board. In all other respects, the executive directors are responsible for the other information.

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 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 section 315e (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 (i.e. manipulation of financial reporting and misappropriation) 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 section 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 judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement in the consolidated financial statements and in the group 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 due to fraud is higher than the risk of not detecting a material misstatement resulting due to error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

– 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 group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an 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 group 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 section 315e (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 group 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 group 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 group 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, actions taken to eliminate threats or safeguards applied.

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

Report 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) HGB

Opinion

We have performed assurance work in accordance with section 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the combined management report contained in the attached file [529900PL69Z32D8WH189–2022–12–31-de] (MD5 hash value: [a77b27756fa2c959bf08b58a596198cc]) and prepared for publication purposes (hereinafter also referred to as "ESEF documents") complies in all material respects with the requirements of section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the combined management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the combined management report contained in the file identified above and prepared for publication purposes complies in all material respects with the requirements of section 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinions on the accompanying consolidated financial statements and the accompanying combined management report for the financial year from 1 January to 31 December 2022 contained in the "Report on the audit of the consolidated financial statements and the combined management report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

Basis for the opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the combined management report contained in the file identified above in accordance with section 317 (3a) HGB and the IDW Assurance Standard: Assurance on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW PS 410 (06.2022)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the "Auditor's responsibility for the audit of the ESEF documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibility of the executive directors and the Supervisory Board for the ESEF documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic rendering 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 in accordance with section 328 (1) sentence 4 no. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have determined necessary to enable the preparation of the ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of section 328 (1) HGB for 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 assurance work on the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material intentional or unintentional non-compliance with the requirements of section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- obtain an understanding of internal control relevant to the assurance 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.
- evaluate the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 in the version in force at the date of the financial statements, on the technical specification for this file.
- evaluate whether the ESEF documents enable an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited combined management report.
- evaluate whether the ESEF documents with Inline XBRL technology (iXBRL) in accordance with Articles 4 and 6 of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditors by the Annual General Meeting on 31 August 2022. We were engaged by the Supervisory Board on 2 December 2022. We have been the group auditors of KAP AG since the 2019 financial year.

We declare that the 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 audit of the financial statements, we have provided to company audited the following service that is disclosed in the consolidated financial statements in other assurance services:

- Agreed-upon procedures in accordance with ISRS 4400 in connection with the compliance certificate as of the calculation date 31 December 2021.

OTHER MATTER – USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be published in the companies register – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Patrick Riedel.

Frankfurt am Main, 20 April 2023

Mazars GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Jörg Maas	Patrick Riedel
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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 includes a fair review of the business performance including the results of operations and the position of the Group, 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, 20 April 2023

KAP AG
Management Board

Eckehard Forberich
Member and Spokesman
of the Management Board

Marten Julius
CFO

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CONCEPT/DESIGN

Kirchhoff Consult AG, Hamburg, Germany

Please note:
This annual report was published on 27 April 2023 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 special 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 indicated.

www.kap.de

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