Half-year report 2022

1 January to 30 June 2022

KEY FIGURES

Selected key figures[1]

		H1 | 2022	H1 | 2021[2]	Change in %
Group				
Revenue	€ millions	233.4	181.7	28.4
Normalised EBITDA	€ millions	23.1	21.6	7.2
Normalised EBITDA margin	%	9.9	11.9	–2.0 pp
Profit for the period after taxes	€ millions	11.0	4.1	> 100.0
Earnings per share	EUR	1.41	0.53	> 100.0
Investments	€ millions	13.5	15.5	–12.9
Depreciation, amortisation and impairments	€ millions	15.0	12.7	18.1
Cash flow from operating activities	€ millions	8.6	0.6	> 100.0
		30/06/2022	**31/12/2021**	**Change in %**
Non-current assets	€ millions	245.7	214.7	14.4
Current assets	€ millions	186.5	126.9	46.9
Equity	€ millions	193.8	182.7	6.1
Equity ratio	%	44.8	53.4	–8.6 pp
Non-current liabilities	€ millions	110.5	49.9	121.4
Current liabilities	€ millions	127.9	109.5	16.8
		H1 | 2022	**H1 | 2021**	**Change in %**
Employees (30 June)		2,905	2,738	6.1

[1] Continuing operations (excl. it/services).
[2] The consolidated statement of income for the previous year has been restated for adjustments in the it/services segment.

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LETTER TO OUR SHAREHOLDERS

DEAR SHAREHOLDERS,

We look back on a very challenging first half of the year, which was characterised by a high level of uncertainty in the market. Thanks to the improvement measures already implemented and the diversified positioning of the segments, the KAP Group was once again able to underscore its crisis resistance and, despite volatile market conditions, achieve an increase in revenue of almost 28.4% to €233.4 million. However, supply chain problems, bottlenecks and price developments on procurement markets had a negative impact on the development of earnings. The normalised EBITDA margin thus declined by 2.0 percentage points to 9.9% (previous year: 11.9%). The decline in profitability is chiefly attributable to the very dynamic price increases, which can be passed on to customers, but only with a time lag.

The significant year-on-year increase in the Group's revenue is mainly the result of the **flexible films** segment's strong performance. The acquisition of the Israeli plastics specialist Haogenplast Ltd. ("Haogenplast"), successfully completed in the first quarter, enabled us to continue on our growth path in the segment. Consistent with the Accelerate programme's defined objectives, this acquisition will generate profitable contributions to earnings. The **engineered products** segment also contributed to the increase in revenue. The positive cash flow from operating activities of €8.6 million provides us with a high degree of flexibility as we implement our strategy for sustainable value enhancement further and at the same time underscores the KAP Group's solid cash flows. In April 2022, we were able to conclude a new loan agreement with a consortium of banks that offers a volume of €175 million. Of this amount, €50 million is earmarked for acquisitions, subject to the approval of the financing banks.

For 2022, we expect the KAP Group's business performance to be considerably impacted by the still uncertain market environment. The Russia-Ukraine war and its significant implications for the global economy will have a negative impact and the energy crisis will worsen. Nevertheless, our forecast remains unchanged, and we anticipate a significant increase in revenue on the previous year. We expect the operating result to be slightly higher than in the previous year.

We will fully implement our Accelerate programme by the end of 2023 and develop the segments accordingly through targeted investments and optimisation. The clear focus here is on increasing profitability. In terms of normalised EBITDA, we are aiming for a target operating margin of over 10% in all segments in the medium term. At the same time, we want to lay the foundations for future growth in attractive market niches through increased research and development activities in the segments.

We have also taken a decisive step forward with regard to sustainability by publishing our new ESG strategy this month. We have taken an in-depth look at the manifold impacts of our actions and have firmly embedded sustainability in our business model. To be able to measure our progress transparently, we have defined sustainability indicators as part of our ESG strategy. We are also committing to the Ten Principles of the UN Global Compact. By introducing various efficiency measures, we are targeting a 10% reduction in energy consumption by 2025, for example. In addition, we want to cut our emissions significantly by switching to green electricity at all relevant locations. This is our contribution towards broad-based and multidimensional societal change for sustainability in business.

We are pleased to continue our strategy grounded in sustainable value creation with a highly qualified and very dedicated team. We would like to express our special thanks to all employees of the KAP Group for their tremendous commitment, the high degree of flexibility and attentiveness in these challenging times. We would also like to express our sincere thanks for the trust that you, our shareholders, have placed in the KAP Group.

Yours sincerely,

Eckehard Forberich
Spokesman of the Management Board

Marten Julius
Chief Financial Officer

Interim Group Management Report

INTERIM GROUP MANAGEMENT REPORT

MACROECONOMIC ENVIRONMENT

In the second quarter of 2022, the global economy was shaped by heightened uncertainties, which significantly slowed the economic recovery. The war that broke out between Russia and Ukraine resulted in extensive sanctions against Russia by the Western community of states. A far-reaching trade embargo and Russia's exclusion from the global financial market caused sharp price increases on commodity markets. Central banks responded to persistently high inflation with the first increases in interest rates and by scaling back bond purchases, raising pressure on financial markets. Rising consumer prices also had a negative impact on consumer sentiment and purchasing power. A positive impact came from the lifting of measures to protect against Covid–19 in most countries following progress with vaccination campaigns and the generally milder illness caused by the Omicron variant. However, China imposed temporary curfews under its strict zero-Covid strategy, dampening the momentum of Chinese economic growth and exacerbating global supply chain problems.

Expectations with regard to the development of the economy were corrected significantly downward. The International Monetary Fund (IMF) now forecasts global economic growth of only 3.2% for 2022 as a whole. This means that the forecast has been lowered by a further 0.4 percentage points compared with the April outlook. Experts expect growth in emerging markets to outpace that in industrialised nations. In Europe, the economy is expected to grow by 2.6% overall in 2022. Moderate growth of 2.3% is forecast for the United States.

In Germany, gross domestic product increased by 1.4% in the second quarter adjusted for price inflation and calendar effects compared with the same quarter of the previous year and by 0.0% compared with the first quarter of the 2022 financial year. The economy was mainly supported by private and government consumer spending, while net exports dampened economic growth. The ongoing Covid–19 pandemic, disrupted supply chains, rising prices and the war in Ukraine are clearly reflected in the economic trend. The ifo Business Climate Index fell to 88.6 points in July, 3.2 points below its level in April 2022 and the lowest level since June 2020. That means that companies expect significantly worse business in the coming months. According to the ifo Institute, high energy prices and the threat of gas shortages in particular are weighing on the economy, with the result that Germany is on the brink of slipping into recession. The Federation of German Industries (BDI) expects Germany's real economic output to increase by around 1.5% in 2022. For 2022, the IMF now only expects a 1.2% increase in economic output in Germany.

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. The general economic situation and the segment companies' most important customer industries – the automotive sector, industrial production and the construction sector – are key for the development of the segments and the segment companies. According to the BDI's calculations, production in the manufacturing sector in the first quarter of 2022 increased by 0.2% compared with the same period of the previous year when adjusted for calendar effects. The construction industry saw an increase of 5.4% and the production of consumer goods rose by 7.6%. A decrease in production development of 0.8% was recorded for intermediate goods, as well as for capital goods with a decrease of 4.4%.

According to the German Association of the Automotive Industry (VDA), the automotive sector was still struggling in the first half of the year with disrupted value chains and logistics chains, which were caused in particular by the semiconductor shortage and disruptions to transport chains, as a result of China's zero-Covid strategy measures, and limited production capacity. Significant uncertainties caused by the Russia-Ukraine war and inflation resulted in a decline in demand in the markets of the United States, Europe and Japan. At 5.6 million, new vehicle registrations in Europe in the first half of the year were 14% down on the previous year. According to the VDA, new registrations in Germany fell by 11%. Sales of light vehicles (cars and light trucks) in the United States fell by 18% to 6.8 million. China, by contrast, set a new record for new vehicle sales in June, with unit sales reaching 10.2 million in the first half of the year, an increase of almost 4%. According to the VDA, one of the reasons for this was pent-up demand caused by lockdowns. The Indian market also recorded significant growth, with unit sales increasing by 16% to 1.8 million passenger cars. According to the German Federal Motor Transport Authority (KBA), growth in new electric vehicles is also continuing steadily, even if it flattened out somewhat in the first half of the year. According to the KBA, approximately 167,000 all-electric vehicles were newly registered in the first six months of 2022, representing growth of 12.5% compared with the first half of 2021.

BUSINESS PERFORMANCE OF THE KAP GROUP

The KAP Group recorded a 28.4% increase in revenue in the first half of 2022, which, in view of the challenging economic environment, was due to the succesful portfolio optimisation in the past year, in which the proceeds from the sale of non-core activities (IT and commercial real estate) were invested in high-growth investments. The KAP Group thus continued in the second quarter the solid business performance with which it had started the new financial year. The market environment in the first half of the year was dominated by a further intensifying supply chain crisis and the economic repercussions of the Russia-Ukraine war. The bottlenecks on the procurement markets and the disruptions in the global supply chains had a negative impact on the KAP Group's earnings in the first two quarters of 2022. In this connection, we are still only able to pass on the significant increases in raw material prices and energy costs to our customers with a time lag and not in full. As a result, the normalised EBITDA margin declined to 9.9% (previous year: 11.9%).

The Group's revenue growth compared with the previous year is attributable above all to the positive development of the **flexible films** segment, whose growth trajectory was further accelerated by the closure of the acquisition of Israeli plastics specialist Haogenplast Ltd. ("Haogenplast"). Segment revenue rose by 52.4% to €102.6 million (previous year: €67.3 million). In line with the clearly defined objective of the Accelerate programme to strengthen the KAP investment portfolio with further attractive acquisitions, the industrial holding company has also generated profitable earnings contributions from this acquisition. The **engineered products** segment also made a significant contribution to the KAP Group's revenue growth. Revenue in this segment rose to €76.4 million (previous year: €60.0 million), representing an increase of 27.3%. This positive development resulted in particular from increased customer demand based on our global production network.

In the other segments – particularly **surface technologies** and **precision components,** which have a greater focus on the automotive sector – the development of business was likewise solid. The **surface technologies** segment, for example, recorded a 6% increase in revenue to €32.5 million (previous year: €30.7 million), despite ongoing supply chain and semiconductor problems at our customers throughout the first half of the year. Revenue of the **precision components** segment was stable in the challenging market environment.

GROUP FINANCIAL PERFORMANCE

KAP Group[1]

		H1 | 2022	H1 | 2021	Change in %
Revenue	€ millions	233.4	181.7	28.4
EBITDA	€ millions	32.2	19.7	63.6
Normalisation adjustments	€ millions	–9.1	1.9	n. m.
Normalised EBITDA	€ millions	23.1	21.6	7.2
Normalised EBITDA margin	%	9.9	11.9	–2.0 pp
Investments	€ millions	13.5	15.5	–12.6
Employees (30 June)		2,905	2,738	6.1

[1] Continuing operations (excl. it/services).

In the first half of 2022, the KAP Group generated revenue of €233.4 million, which represents an increase of 28.4% year on year (previous year: €181.7 million). The growth reflects both inorganic growth due to the contribution to revenue from the Haogenplast acquisition and organic growth due to the significant increase in demand in our **flexible films** and **engineered products** segments.

Up €44.6 million to €139.8 million, cost of materials increased steeply particularly due to sharp increase in raw material prices and higher production capacity than in the previous year. As a percentage of revenue, cost of materials increased by 7.1 percentage points to 58.5%. Personnel expenses rose to €52.2 million in the first half of the year (previous year: €45.0 million), mainly due to the increase in headcount resulting from the Haogenplast acquisition. As output also rose by a higher rate, personnel expenses as a percentage of total operating performance decreased by 3.0 percentage points to 21.8% (previous year: 24.7%).

Other operating income in the first half of the year amounted to €17.6 million, up around 75% year on year. The increase is mainly due to recognition of the contingent purchase price component in connection with the sale of the commercial property in Fulda and gains on the sale of other properties. Other operating expenses increased to €32.4 million (previous year: €31.8 million), largely associated with higher freight and packaging costs due to the increase in revenue.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to €32.2 million in the first half of the year and were adjusted for non-recurring effects and special items totalling €–9.1 million. These normalisation adjustments mainly related to gains on the disposal of real estate and other non-current assets as well as transaction-related consulting fees and restructuring costs. Normalised EBITDA rose by 7.2% to €23.1 million (previous year: €21.6 million). The normalised EBITDA margin thus increased by 2.0 percentage points to 9.9% (previous year: 11.9%).

Depreciation, amortisation and impairments increased to €15.0 million (previous year: €12.7 million).

The normalised operating result (EBIT) decreased by 8.4% compared with the same period of the previous year to €8.1 million (previous year: €8.8 million). Earnings before income taxes increased to €15.7 million (previous year: €6.3 million). The current tax expense was higher than the previous year's level at €4.7 million (previous year: €2.2 million). Earnings from discontinued operations came to €0.5 million compared with €19.6 million in the same period of the previous year. The high amount in the previous year mainly comprised the gains on disposal of shares in the companies from the it/services segment. As a result, the consolidated profit/loss for the first half of the year decreased from €23.7 million in the same period of the previous year to €11.6 million in the first half of 2022.

SEGMENT REPORTING

FLEXIBLE FILMS SEGMENT DEVELOPMENT

flexible films

		H1 | 2022	H1 | 2021	Change in %
Revenue	€ millions	102.6	67.3	52.4
Normalised EBITDA	€ millions	14.4	10.0	44.8
Normalised EBITDA margin	%	14.1	14.8	–0.7 pp
Investments	€ millions	2.9	1.6	78.8
Employees (30 June)		545	365	49.3

The **flexible films** segment continued its growth course in the first half of 2022, generating its highest six-monthly revenue to date and the highest quarterly revenue in the year's second quarter. Thanks to its strong market position and including the newly added revenue of €29.9 million from the Haogenplast acquisition, the segment recorded revenue growth of 52.4% to €102.6 million (previous year: €67.3 million). The segment currently continues to be confronted with rising raw material prices for PVC and plasticisers. This is reflected in a slight decrease in the EBITDA margin. Normalised EBITDA increased by 45% to €14.4 million in the first six months (previous year: €10 million), while the normalised EBITDA margin fell by 0.7 percentage points to 14.1%.

With the Haogenplast acquisition, KAP AG closed an attractive transaction in the flexible films segment in the first quarter of 2022. A leading supplier of premium plastics products with registered offices in Israel, Haogenplast mainly manufactures films for applications in the construction sector, such as swimming pools, window laminates and high-tech weatherproof roofing.

The segment invested €2.9 million during the reporting period, a considerable increase in capital expenditure year on year (previous year: €1.6 million). The capital expenditure primarily related to measures for increasing efficiency. The number of employees increased on account of the Haogenplast acquisition by 49.3% to 545 as of 30 June 2022 (previous year: 365).

ENGINEERED PRODUCTS SEGMENT DEVELOPMENT

engineered products

		H1 | 2022	H1 | 2021	Change in %
Revenue	€ millions	76.4	60.0	27.3
Normalised EBITDA	€ millions	5.3	5.0	7.7
Normalised EBITDA margin	%	7.0	8.3	–1.3 pp
Investments	€ millions	4.1	1.8	> 100
Employees (30 June)		887	933	–4.9

In the **engineered products** segment, revenue increased by 27.3% to €76.4 million in the first half of 2022 (previous year: €60.0 million), largely driven by passing on the higher raw material costs as well as a general increase in customer demand for our products in this segment. Normalised EBITDA increased year on year by 67.7% to €5.3 million (previous year: €5.0 million). The normalised EBITDA margin narrowed by 1.3 percentage points to 7.0% (previous year: 8.3%). The lower level of profitability compared with the first half of 2021 is still attributable to the rise in costs for raw materials, freight and energy, which can only be passed on to customers with a time lag. In addition, the segment is feeling the effect of persisting supply chain problems, particularly in the automotive industry.

In the reporting period, KAP AG systematically continued the sales initiatives launched as part of Accelerate. The new production hall currently under costruction and a new textile laboratory at the Hessisch Lichtenau site will significantly expand production capacity. This project was a major factor in the segment's investment volume of €4.1 million in the reporting period, which was significantly higher than the previous year's figure of €1.8 million.

As of 30 June 2022, 887 people were employed in the segment (previous year: 933), which is 4.9% fewer than as of the same reporting date of the previous year. The decrease in the number of employees is due to the sale of the site in Lomnice.

SURFACE TECHNOLOGIES SEGMENT DEVELOPMENT

surface technologies

		H1 | 2022	H1 | 2021	Change in %
Revenue	€ millions	32.5	30.7	6.0
Normalised EBITDA	€ millions	3.9	5.8	–32.6
Normalised EBITDA margin	%	12.0	18.9	–6.9 pp
Investments	€ millions	2.7	9.0	–70.0
Employees (30 June)		765	725	5.5

Following a stable development in the first quarter, revenue in the **surface technologies** segment increased by 6.0% year on year to €32.5 million (previous year: €30.7 million) over the entire first half of the year, despite ongoing supply chain and semiconductor problems at our customers. Normalised EBITDA decreased significantly by 32.6% to €3.9 million compared with the first half of 2021 (€5.8 million). The normalised EBITDA margin thus narrowed accordingly by 6.9 percentage points to 12.0% (previous year: 18.9%). The main reason for this was once again the sharp rise in cost of materials as well as cost increases particularly for electricity and gas, which, as is customary in the industry, can only be passed on with a time lag and in some cases not in full.

The investment volume, which in the previous year largely comprised the expenditure for the new site in Alabama, was significantly lower in the current reporting period at €2.7 million (previous year: €9.0 million).

As of 30 June 2022, 765 people were employed in the segment, up 5.5% compared with the end of the same period of the previous year (previous year: 725). The reason for the increase is mainly the addition of employees at the new site in Jasper, Alabama.

PRECISION COMPONENTS SEGMENT DEVELOPMENT

precision components

		H1 | 2022	H1 | 2021	Change in %
Revenue	€ millions	22.2	22.2	–0.2
Normalised EBITDA	€ millions	0.7	1.8	–59.9
Normalised EBITDA margin	%	3.3	8.1	–4.8 pp
Investments	€ millions	3.6	3.0	–18.2
Employees (30 June)		646	658	–1.8

The **precision components** segment generated unchanged revenue of €22.2 million in the first half of the year (previous year: €22.2 million), despite a likewise high share of business with the automotive sector. The continuing supply chain problems and sharp increases in raw material prices continue to impact the profitability of the segment, as price increases can only be passed on to customers with a time lag, as is customary in the industry, and inflation is currently persisting. In accordance with the current EU sanctions, the KAP Group has also been allowed to supply only raw materials and no semi-finished products to our contract processing site in Belarus since June due to the Russia-Ukraine war. The segment's transport costs have risen sharply due to alternative sources of supply. Accordingly, normalised EBITDA decreased significantly to €0.7 million in the first half of 2022 (previous year: €1.8 million). The normalised EBITDA margin decreased by 4.8 percentage points to 3.3% (previous year: 8.1%).

Investments amounted to €3.6 million in the first half of the year (previous year: €3.0 million) and primarily consist of capital expenditure on new customer projects, including in the field of e-bike components, at the Dresden site. The precision components segment's headcount as of 30 June 2022 stood at 646 employees, down 1.8% (previous year: 658).

CASH FLOWS

Selected key indicators on cash flows

in € millions	H1 | 2022[1]	H1 | 2021	Change in %
Cash flow from operating activities	8.6	0.6	> 100
Cash flow from investing activities	–39.8	–28.2	41.1
Cash flow from financing activities	28.5	18.5	54.3
Net change in cash and cash equivalents	–2.7	–9.1	–70.2
Change in cash and cash equivalents due to exchange-rate and consolidated-group effects	1.9	1.2	54.2
Cash and cash equivalents at end of period	16.6	8.1	104.9

[1] Continuing operations (excl. it/services).

The cash flow from operating activities increased significantly in the first six months of the 2022 financial year to €8.6 million (previous year: €0.6 million). The previous year's low cash flow from operating activities reflected non-recurring effects as of the previous year's reporting date in connection with the sale of the it/services segment.

The cash flow from investing activities resulted in a cash outflow of €39.8 million (previous year: €28.2 million). This increase was mainly due to the acquisition of Haogenplast in Israel.

The cash flow from financing activities amounted to €28.5 million in the first half of the year (previous year: €18.5 million). This renewed high cash inflow from financing activities was attributable to the refinancing of our acquisition in Israel and the refnancing of the increased working capital.

In April 2022, the KAP Group was able to conclude a loan agreement with a new consortium of banks that offers a credit volume of €175 million. Of this amount, €50 million is earmarked for acquisitions, subject to the approval of the financing banks. The old loan agreement was superseded prematurely.

FINANCIAL POSITION

The KAP Group's total assets totalled €432.2 million as of 30 June 2022, up €90.1 million on the level as of 31 December 2021 (€342.1 million).

On the assets side, non-current assets increased by €31.0 million to €245.7 million (31 December 2021: €214.7 million). Intangible assets increased by €13.4 million to €49.3 million. This increase is mainly due to the acquisition of Haogenplast in Israel. As a result of our capital expenditure, property, plant and equipment increased by €17.5 million to €189.9 million (31 December 2021: €172.3 million). Investment properties fell by €0.7 million to €1.1 million (31 December 2021: €1.9 million). Compared with 31 December 2021 (€4.4 million), deferred tax assets increased by €0.8 million to €5.2 million.

Current assets rose by €59.6 million to €186.5 million (31 December 2021: €126.9 million). This development is mainly due to the significant increase in trade receivables by €30.9 million to €69.3 million (31 December 2021: €38.4 million) and the increase in inventories by €28.1 million to €87.7 million (31 December 2021: €59.6 million). This was attributable to higher inventory levels as a precaution in the event of increasing supply bottlenecks, rising raw material prices and the aforementioned acquisition of Haogenplast. Other receivables and assets rose by €1.3 million to €11.6 million (31 December 2021: €10.3 million). Cash and cash equivalents decreased by €0.8 million to €16.6 million (31 December 2021: €17.4 million).

Working capital increased by €36.3 million to €109.8 million (31 December 2021: €73.5 million). The expansion of working capital is in line with the increase in the KAP Group's operating performance in the first half of the year as well as the sharp rise in raw material prices and higher inventory levels.

On the equity and liabilities side, equity increased by €11.1 million to €193.8 million (31 December 2021: €182.7 million). The increase results largely from the current net profit for the year. Non-current liabilities rose by €60.6 million to €110.5 million (31 December 2021: €49.9 million). Non-current financial liabilities increased by €58.6 million to €85.3 million (31 December 2021: €26.7 million). The increase relates to the new syndicated loan that the Group was able to conclude in April 2022. In contrast to the reporting date of 31 December 2021, the new financing arrangement again qualified for recognition under non-current liabilities.

Current liabilities rose by €18.4 million to €127.9 million (31 December 2021: €109.5 million). This is largely due to the €22.7 million increase in trade payables to €47.2 million (31 December 2021: €24.5 million) and higher other liabilities of €21.7 million (31 December 2021: €11.3 million). Trade payables increased in particular due to our higher inventories and the increased raw material prices. In contrast, other provisions decreased by €6.0 million to €16.6 million (31 December 2021: €22.9 million). Current financial liabilities amounted to €30.3 million, decreasing by €12.8 million (31 December 2021: €43.1 million). This change is also related to the above-mentioned refinancing.

OPPORTUNITIES AND RISKS

A description of the major opportunities and risks and the principles of the KAP Group's risk management system can be found in the group management report in the published 2021 Annual Report from page 63 onwards. The risks mentioned with respect to economic developments and risks relating to energy and raw material prices have largely materialised. Uncertainties caused by the Russia-Ukraine war and the ongoing Covid–19 pandemic, supply bottlenecks and tighter monetary policy in response to high inflation by central banks have led to a significant slowdown in global economic growth. We reduce our dependence on the development of individual sectors by means of our diversification across several market segments and a broad product portfolio. To the extent possible under our contractual arrangements, we pass on increased purchase prices, including for PVC as well as electricity and gas, to our customers. In some cases, however, they can only be passed on with a time lag and, in individual cases, not fully. The statements made in the 2021 Annual Report regarding the rest of the risk and opportunity situation largely still apply.

Risks persist from a possible deterioration in the development of the Covid–19 pandemic or further related repercussions on global trade and worldwide supply chains, particularly in the event of renewed far-reaching lockdown measures in China. Furthermore, an economic downturn and further increases in energy and raw material prices could have a negative impact on the KAP Group's business performance. Another particular risk scenario would be a sudden European halt to gas imports from Russia. In addition, further or tougher sanctions imposed by the European Union on Russia may have a negative impact on the KAP Group's business.

At the present time, it is not possible to make a concrete assessment of how the Russia-Ukraine conflict will pan out and how its repercussions will affect the KAP Group specifically. The volatility of financial markets cannot currently be reliably assessed either, meaning that KAP presently anticipates higher financial risks.

Taking account of all the facts known, there are currently no identifiable individual risks that might jeopardise the continuation of the KAP Group as a going concern. This also applies to the overall assessment of all risks.

EVENTS AFTER THE REPORTING PERIOD

There were no other significant events after the end of the reporting period that affect the true and fair view of the business performance, the results of operations, the position and the expected development of the Company.

OUTLOOK

We continue to assume that the KAP Group's business development in the 2022 financial year will be influenced noticeably by the uncertain market environment and significant supply chain disruptions. Added to this, we expect the global energy crisis to deteriorate. Despite the volatile and uncertain market parameters, based on the current risk assessment and backed by our diversified investment model and the strong market positioning of our segments in their respective niche markets, we still expect revenue to increase significantly year on year and an operating result slightly above the previous year.

The overall assessment takes into account any already foreseeable risks as a result of the Russia-Ukraine war and the ongoing coronavirus pandemic. Additional effects that could not yet be specifically quantified at the time the report was finalised may lead to subsequent changes in the forecast. The Management Board is intensively reviewing various measures to compensate for these effects in the best possible way.

Development of the KAP Group in H1 2022

CONSOLIDATED STATEMENT OF INCOME

FROM 1 JANUARY TO 30 JUNE 2022

in € thousands	2022	2021[1]
Revenue	**233,396**	**181,732**
Change in inventories and other own work capitalised	5,576	–72
Total operating performance	**238,972**	**181,660**
Other operating income	17,601	10,037
Cost of materials	–139,811	–95,189
Personnel expenses	–52,166	–45,002
Amortisation and impairment of intangible assets and depreciation and impairment of property, plant and equipment and investment property	–15,023	–12,726
Other operating expenses	–32,389	–31,815
Operating result	**17,184**	**6,965**
Interest result	–1,580	–1,259
Other financial result	89	642
Financial result	**–1,491**	**–617**
Earnings from continuing operations before income taxes	**15,693**	**6,348**
Income taxes	–4,714	–2,205
Earnings from continuing operations	**10,979**	**4,143**
Earnings from discontinued operations after taxes	579	19,537
Earnings after taxes	**11,558**	**23,680**
Non-controlling interests	31	135
Profit/loss attributable to shareholders of KAP AG	**11,589**	**23,815**
Basic earnings per share (€)		
Earnings from continuing operations	1.41	0.53
Earnings from discontinued operations	0.07	2.52
	1.48	**3.05**

[1] The consolidated statement of income for the previous year has been restated for adjustments in the it/services segment.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS

FROM 1 JANUARY TO 30 JUNE 2022

in € thousands	2022	2021
Consolidated profit/loss after taxes	**11,558**	**23,680**
Unrealised gains/losses from currency translation	–448	2,504
Unrealised gains/losses from available-for-sale financial assets	–	–
Items that may be reclassified subsequently to profit or loss	**–448**	**2,504**
Actuarial gains from defined benefit pension plans	–	–
Deferred taxes on actuarial gains/losses from defined benefit pension plans	–	–
Items that will not be reclassified subsequently to profit or loss	**–**	**–**
Other comprehensive income after taxes	**–448**	**2,504**
thereof attributable to non-controlling interests	–	–
thereof attributable to shareholders of KAP AG	–448	2,504
Total comprehensive income	**11,110**	**26,184**
thereof attributable to non-controlling interests	–31	–135
thereof attributable to shareholders of KAP AG	11,141	26,319

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE PERIOD ENDED 30 JUNE 2022

in € thousands	30/06/2022	31/12/2021
ASSETS		
Non-current assets		
Intangible assets	49,253	35,867
Property, plant and equipment	189,857	172,343
Investment properties	1,149	1,888
Other financial assets	182	196
Deferred tax assets	5,246	4,365
	245,687	**214,659**
Current assets		
Inventories	87,714	59,597
Trade receivables	69,255	38,435
Income tax receivables	1,378	1,219
Other receivables and assets	11,606	10,256
Cash and cash equivalents	16,565	17,421
	186,518	**126,928**
Non-current assets held for sale and discontinued operations	**–**	**524**
	432,205	**342,111**

in € thousands	30/06/2022	31/12/2021
EQUITY AND LIABILITIES		
Equity and reserves		
Subscribed capital	20,196	20,196
Capital reserve	86,921	86,921
Reserves	–17,121	–16,672
Retained earnings	103,277	91,696
Equity attributable to the shareholders of KAP AG	**193,273**	**182,141**
Non-controlling interests	516	546
	193,789	**182,687**
Non-current liabilities		
Provisions for pensions and similar obligations	16,371	16,677
Non-current financial liabilities	85,346	26,676
Deferred tax liabilities	8,451	6,528
Other non-current liabilities	324	–
	110,492	**49,881**
Current liabilities		
Other provisions	16,933	22,917
Current financial liabilities	30,346	43,097
Trade payables	47,152	24,547
Income tax liabilities	11,807	7,643
Other liabilities	21,686	11,339
	127,924	**109,543**
	432,205	**342,111**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 JUNE 2022

in € thousands	Subscribed capital	Capital reserve	Currency differences	Actuarial gains/losses
01/01/2021	**20,177**	**86,840**	**–23,821**	**–6,982**
Consolidated profit/loss	**–**	**–**	**–**	**–**
Other comprehensive income before taxes	–	–	2,504	–
Deferred taxes on other comprehensive income	–	–	–	–
Total comprehensive income	**–**	**–**	**2,504**	**–**
Capital increase	19	81	–	–
Capital decrease	–	–	–	–
Dividends paid to shareholders	–	–	–	–
Change in consolidated group	–	–	–	251
Withdrawals	–	–	–	–
Other changes	–	–	–	–
30/06/2021	**20,196**	**86,921**	**–21,317**	**–6,731**
01/01/2022	**20,196**	**86,921**	**–19,969**	**–6,115**
Consolidated profit/loss	**–**	**–**		**–**
Other comprehensive income before taxes	–	–	–449	–
Deferred taxes on other comprehensive income	–	–	–	–
Total comprehensive income	**–**	**–**	**–449**	**–**
Capital increase	–	–	–	–
Capital decrease	–	–	–	–
Dividends paid to shareholders	–	–	–	–
Change in consolidated group	–	–	–	–
Withdrawals	–	–	–	–
Other changes	–	–	–	–
30/06/2022	**20,196**	**86,921**	**–20,417**	**–6,115**

		Revenue reserves				
	Other	Total	Retained earnings	Equity attributable to KAP sharholders	Non-controlling interests	Total equity
	10,372	**–20,431**	**65,446**	**152,032**	**2,296**	**154,328**
	–	**–**	**23,815**	**23,815**	**–135**	**23,680**
	–	2,504	–	2,504	–	2,504
	–	–	–	–	–	–
	–	**2,504**	**23,815**	**26,319**	**–135**	**26,184**
	–	–	–	–	–	100
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	251	–	251	2,364	2,615
	–1,278	–1,278	–	–1,278	–1,022	–2,300
	–93	–93	–	–93	–1	–94
	9,001	**–19,047**	**89,261**	**177,331**	**3,502**	**180,833**
	9,411	**–16,672**	**91,696**	**182,141**	**546**	**182,687**
	–	**–**	**11,586**	**11,586**	**–31**	**11,556**
	–	–449	–	–449	–	–449
	–	–	–	–	–	–
	–	**–449**	**11,586**	**11,138**	**–31**	**11,107**
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–5	–5	–	–5
	9,411	**–17,121**	**103,277**	**193,273**	**516**	**193,789**

CONSOLIDATED STATEMENT OF CASH FLOWS

FROM 1 JANUARY TO 30 JUNE 2022

in € thousands	2022	2021
Consolidated profit/loss after taxes	**10,979**	**23,680**
Interest result	1,580	1,260
Income taxes	4,714	2,539
Earnings before interest and income taxes	**17,273**	**27,479**
Depreciation, amortisation and impairment of non-current assets (net of any reversals)	15,023	12,832
Change in provisions	–6,326	–2,072
Other non-cash expenses and income	971	–97
Gains/losses from the disposal of non-current assets	–1,445	–737
Cash flow from operating activities before changes in assets and liabilities	**25,496**	**37,405**
Change in inventories, receivables and other assets not attributable to investing and financing activities	–34,907	–40,548
Change in payables and other liabilities not attributable to investing and financing activities	21,825	9,113
Cash flow from operating activities before interest and income taxes	**12,414**	**5,970**
Interest paid and received	–1,580	–1,260
Income taxes paid and received	–2,280	–4,085
Cash flow from operating activities	**8,554**	**625**
Proceeds from disposals of property, plant and equipment (including investment property)	2,322	737
Investments in property, plant and equipment (including investment property)	–12,226	–16,784
Investments in intangible assets	–1,047	–3,780
Cash outflow from the addition of consolidated companies	–28,851	–8,383
Proceeds from repayments of financial receivables	14	20
Cash flow from investing activities	**–39,788**	**–28,190**
Proceeds from capital increase	–	100
Acquisition of non-controlling interests	–	–2,300
Proceeds from borrowings	104,954	26,124
Repayment of borrowings	–76,428	–5,440
Cash flow from financing activities	**28,526**	**18,484**
Net change in cash and cash equivalents	–2,708	–9,081
Change in cash and cash equivalents due to exchange-rate, consolidated-group and valuation effects	1,852	1,201
Cash and cash equivalents at beginning of period	17,421	15,964
Cash and cash equivalents at end of period	**16,565**	**8,084**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL NOTES

KAP AG's interim financial statements for the period ended 30 June 2022 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. The interim report complies with the requirements on interim reporting as set out in IAS 34 and is presented in condensed form.

The interim financial statements contain disclosures and explanatory notes concerning items of the consolidated statement of financial position, the consolidated statement of income, the consolidated statement of cash flows and concerning the consolidated statement of changes in equity and segment reporting, insofar as they are material.

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

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

KAP AG is a listed industrial holding company that holds stakes in medium-sized companies and has its registered office in Fulda, Germany.

2. CONSOLIDATED GROUP

KAP AG's interim financial statements for the period ended 30 June 2022 include all major domestic and foreign subsidiaries over which KAP AG has legal and/or de facto control.

In addition to KAP AG, the consolidated group includes 28 German and 21 foreign companies (previous year: 28 German and 19 foreign companies).

The purchase agreement to acquire 100% of the shares in Haogenplast Ltd., Haogen, Israel, was signed on 29 December 2021. The shares were acquired with effect as of 1 January 2022. A leading supplier of premium plastics products with registered offices in Israel, Haogenplast mainly manufactures films for applications in the construction sector, such as swimming pools, window laminates and high-tech weatherproof roofing. The shares were acquired by the newly established KAP Holdco Ltd., Haogen, Israel.

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

in € thousands	Carrying amounts before purchase price allocation	Adjustment	Preliminary purchase price allocation
Non-current assets			
Intangible assets	–	8,390	8,390
Property, plant and equipment	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 preliminary 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. In the first half of 2022, Haogenplast Ltd. generated revenue of €29,866 thousand and a net profit for the period of €2,360 thousand.

The fair value of the consideration transferred is €28,851 thousand. The purchase price was paid in full in cash.

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 employees in total). However, contractual relationships were not transferred. According to the definition in IFRS 3, the assets acquired in the asset deal constitute a business. The preliminary purchase price allocation revealed that a value of €1,200 thousand is attributable to the customer base and a value of €1,100 thousand is attributable to the property, plant and equipment acquired. The fair value of the consideration transferred is €2,300 thousand and was paid in cash. Revenue of €2,000 thousand was generated in the first halfyear with the customer base acquired.

Gains on deconsolidation of subsidiaries are disclosed under gains/losses on the sale of assets and liabilities. Discontinued operations are recognised separately under gains/losses from discontinued operations. The date of initial consolidation or deconsolidation is generally the date on which control is transferred. Effects on the financial position, cash flows and financial performance arising from the change in the consolidated group are explained in each case, insofar as they are material.

3. BASIS OF CONSOLIDATION

The purchase method is applied to all business combinations from 1 January 2004. The acquired assets and liabilities of fully consolidated companies are recognised at their fair value.

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.

Goodwill offset against reserves prior to 1 January 2004 remains offset against revenue reserves. If all or part of the operating segment is divested or if the cash-generating unit is impaired, the goodwill impact is accounted for directly in equity.

Any remaining negative difference is recognised immediately in the statement of income. Negative differences arising from capital consolidation recognised in accordance with German commercial law before 1 January 2004 are recognised in reserves in accordance with International Financial Reporting Standards.

Shares in the capital and the 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 interest in subsidiaries that do not result in the loss or acquisition of control are accounted for as equity transactions.

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

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

4. FOREIGN CURRENCY TRANSLATION

Foreign currency receivables and liabilities recognised in the separate financial statements are initially recognised at cost. Exchange rate gains and losses arising on the reporting date as a result of changes in exchange rates are recorded in the 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 valid at the entity's registered office.

All assets and liabilities are translated at average exchange rates on the reporting date, and expenses and income are translated at the average exchange rate for the period.

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 are reported separately under non-controlling interests to the extent attributable to non-controlling interests.

Currency translation differences from the elimination of intercompany balances are generally recognised through profit or loss.

The following exchange rates were used:

	Annual average exchange rate		Average exchange rate on reporting date		
€1 =	2022	2021	30/06/2022	31/12/2021	30/06/2021
Belarusian rouble	3.3613	3.0927	3.5118	2.8945	3.0102
Chinese yuan	7.0843	7.7874	6.9802	7.2172	7.6808
Indian rupee	83.3227	88.2635	82.0327	84.1680	88.3839
Israeli shekel	3.5762	3.8195	3.6321	3.5097	3.8779
Polish zloty	4.6372	4.5385	4.6875	4.5944	4.5185
Swedish krona	10.4788	10.1346	10.7233	10.2558	10.1165
Swiss franc	1.0321	1.0858	0.9978	1.0333	1.0972
South African rand	16.8487	17.4265	16.9489	18.0538	17.0202
Czech koruna	24.6433	25.8215	24.744	24.8610	25.4840
Hungarian forint	374.7233	357.6175	396.5300	369.8500	351.6100
US dollar	1.0944	1.2041	1.0401	1.1320	1.1890

5. RECOGNITION AND MEASUREMENT POLICIES

For KAP AG's consolidated financial statements, the separate financial statements of all domestic and foreign subsidiaries are prepared in accordance with uniform recognition and measurement policies.

Fair value

In IFRS 13 Fair Value Measurement, the International Financial Reporting Standards provide for largely standardised measurement at fair value, including the necessary disclosures. Fair value is the value that would be received from the sale of an asset or the price that would have to 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. Allocation to hierarchy level 2 occurs if a valuation model is applied or the price is derived from similar transactions. Financial assets and liabilities are recognised in hierarchy level 3 if the fair value is determined from unobservable parameters. When measuring assets and liabilities, the risk of default is also taken into account.

Intangible assets

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

Acquired intangible assets are initially recognised at cost. This includes the purchase price and any costs directly attributable to bringing the asset to a condition necessary for it to be capable of operating.

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

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

Following initial recognition, intangible assets are reported using 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

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

Property, plant and equipment

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

Cost includes any costs directly attributable to bringing the assets to the condition necessary for them to be capable of operating. In addition to direct costs, cost also includes an appropriate share of production-related overheads.

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

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

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

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

Borrowing costs

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

Leases

For each lease, the KAP Group as a lessee generally recognises a right-of-use asset and corresponding lease liability. In doing so, it exercises the option to measure the right-of-use asset at an amount equal to the lease liability, adjusted for prepaid or accrued lease payments.

It exercises the exemptions for short-term leases with a term of less than twelve months and leases of low-value assets with an original price of less than €5,000. Payments attributable to these leases are recognised as expenses. Leasing and non-leasing components are also combined when recognising leases.

Right-of-use assets resulting from leases are measured at cost upon initial recognition. Cost comprises the following components: the amount of lease liabilities initially recognised; lease payments made before or at the commencement date of the lease; less any lease incentives received and any initial direct costs of the lessee.

Since the KAP Group applies the cost model, right-of-use assets are recognised at depreciated cost less accumulated depreciation and impairment losses. The lease term is generally used as a basis for determining the amount of depreciation unless ownership of the leased asset is transferred to the KAP Group as the lessee by the Group exercising its purchase option or as a result of a contractual agreement. In this case, the economic life of the asset is used as basis for determining depreciation.

In order to ascertain whether a right-of-use asset is impaired, the KAP Group applies IAS 36.

The lease liability is subsequently measured in accordance with the effective interest method. The lease liability is reduced by the principal portion, and the interest portion attributable to the liability is recognised as an expense under interest result.

Right-of-use assets are recognised in the statement of financial position items where the underlying assets would be recognised if they were owned by the Group.

Sale and leaseback transactions

For sale and leaseback transactions, it is first assessed whether these constitute a sale within the meaning of IFRS 15 and thus constitute such a transaction. The right-of-use asset is recognised at the proportion of the original carrying amount of the asset that relates to the right of use retained. Only the amount that relates to the proportion of the right-of-use asset not leased back is recognised 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. Grants are recognised as income on a systematic basis over the period in which the related costs 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 using 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 (factory and office equipment).

Impairment of non-current non-financial assets

For intangible assets with a finite useful life, property, plant and equipment and investment properties, an assessment is made at each reporting date to determine whether there is any indication that the assets may be impaired. If any such indication exists, the recoverable amount of each individual asset is estimated unless an asset generates cash inflows that are not largely independent of other assets or other groups of assets (cash-generating units).

Goodwill acquired in a business combination is allocated to the cash-generating unit that is expected to benefit from the acquisition. Cash-generating units are defined as the groups of companies that operate economically independently. The allocation is made no later than in the period following the acquisition date.

Goodwill or other intangible assets with indefinite useful lives are tested for impairment annually as of each reporting date – and whenever there is any indication of impairment – by comparing the carrying amount with the recoverable amount at the level of the cash-generating unit. If the CGU's carrying amount 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 proportionately the other assets' carrying amounts. 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 has decreased, the recoverable amount of this asset is 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. A reversal of an impairment loss increasing the carrying amount to the newly assessed recoverable amount is limited so that it does not exceed the carrying amount that would have been determined if the asset had been recognised at cost net of depreciation or amortisation. The depreciation or amortisation amounts of future periods are adjusted accordingly.

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

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

Deferred taxes
Deferred taxes are recognised in respect of temporary measurement differences. The calculation is based on the concept of the statement-of-financial-position-oriented liability method, which encompasses all accounting differences and measurement differences, whether 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 if it is sufficiently probable that sufficient taxable profit will be available in future to allow these loss carry-forwards to 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 when the asset is realised. Temporary measurement differences resulting from previous reporting periods are adjusted accordingly in the event of changes in tax rates.

Deferred tax assets and liabilities are offset if the Group has 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 costs of purchase of raw materials, supplies and merchandise include all directly attributable costs.

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

Inventory risks with respect to storage time and recoverability leading to a net realisable value below cost are taken into account by means of appropriate write-downs. If the reasons for a write-down made in previous periods no longer apply, the amount of the write-down 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, they are measured at amortised cost. Appropriate loss allowances are made based on the lifetime expected credit losses. 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 adjusted through profit or loss, but at most until the carrying amount corresponds to the amortised cost that would have resulted without impairment.

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

Non-current assets held for sale and discontinued operations
Non-current assets and/or disposal groups, as well as liabilities directly associated with non-current assets and disposal groups, are classified as held for sale if the relevant carrying amounts will be recovered 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 their carrying amount and fair value less costs to sell. They are reported separately from other assets in the statement of financial position. Liabilities directly associated with non-current assets and disposal groups classified as held for sale are presented separately from other liabilities.

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

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

Qualifying insurance policies are treated as plan assets and measured at fair value on the reporting date. The value of plan assets reduces the present value of the defined benefit obligations. The plan assets are reported net in the statement of financial position, up to a maximum of the present value of the 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, there is only a cash settlement obligation in connection with the share-based payment, which is why the payment is accounted for under 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 or loss. The fair value is determined using a recognised 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, they are measured at amortised cost using the effective interest method.

Lease liabilities are recognised at the present value of the minimum lease payments. The resulting borrowing costs are recognised in the financial result as interest expenses.

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

If the agreed transaction price includes variable components, the amount of consideration is determined either by the expected value method or by 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. For this reason, no financing component is included in the transaction price. If a contract comprises several distinct performance obligations, the transaction price is allocated between the individual performance obligations on the basis of the standalone selling prices. As a rule, goods and services are sold at standalone selling prices. Revenue from customer contracts is recognised at a point in time or over time. If the performance of the service and the receipt of the payment from a customer do not fall on the same date, contract assets or liabilities may arise.

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

Revenue from the sale of goods: revenue from the sale of goods is recognised at the delivery date 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 upon 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 those of the customer and may not be used elsewhere.

In a consignment contract, control of the goods transfers to the customer when the goods are removed from the consignment warehouse because the customer cannot obtain benefit from use of the goods before this point in time. Revenue is recognised at this point in 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 percentage of completion). The right to payment arises when an invoice is issued after the provision of a service. Typically, no variable payments are agreed. In the case of long-term contracts, invoices are usually issued to the customer on a monthly basis. The Group uses output-oriented methods for revenue recognition because this allows reflecting the transfer of control over the asset to the customer more appropriately in the consolidated financial statements. 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 amounts may deviate from the estimated amounts. The carrying amounts 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 are primarily made when determining the useful lives of non-current assets, when determining lease terms and the incremental borrowing rate of leases, in impairment testing and purchase price allocations and when recognising provisions for pensions, taxes and risks from business operations.

6. NEW ACCOUNTING STANDARDS

The new or amended IFRS regulations have no impact or no material impact on the interim consolidated financial statements of the KAP Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The non-current assets held for sale in the previous year comprised the commercial property in Fulda, which was sold in 2021. The sale of the property in November 2021 involved the disposal of non-current assets held for sale of €9,090 thousand. The remaining €524 thousand in this item in the 2021 financial year relates to a part of a building that was sold in 2022. The proceeds from the sale amount to €3,029 thousand.

By notarised agreement of 29 June 2021, Mehler AG sold all the shares in the it-novum group. The sale became legally effective as of 30 June 2021. The figures for the previous year in the consolidated statement of income and in the consolidated statement of comprehensive income/loss were restated accordingly to present the discontinued operation separately from continuing operations. Intercompany transactions of the previous year were fully eliminated from the consolidated financial results in accordance with IFRS 10. Consequently, only external revenue and expenses are shown under earnings from discontinued operations in the figures for the previous year.

In the current financial year, earnings from discontinued operations include income from released liability obligations of €579 thousand (previous year: €404 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.

8. EQUITY

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.

9. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period to report up to 29 August 2022 (the date of approval for publication by the Management Board).

10. 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 statement of financial position on the reporting date. 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.

11. SEGMENT REPORTING

Due to the existing internal financial reporting in the KAP Group, the primary report format is structured by operating segment.

For reasons of transparency, a distinction is made between the engineered products, flexible films, precision components and surface technologies segments in the KAP Group. The it/services segment was sold in the 2021 financial year. In the half-year report 2021, the segment was presented separately as a discontinued operation.

The accounting policies used match those of the consolidated financial statements. Intragroup revenue is transacted at customary market prices and generally corresponds to prices used in third-party sales (arm's length principle).

The segment profit/loss is defined as the segment EBITDA (earnings before interest, taxes, depreciation and amortisation).

Segment EBITDA corresponds to the EBITDA of the Group at Group level.

12. CONTINGENT ASSETS AND LIABILITIES

There is a contingent asset arising from possible additional reimbursement payments by the insurer for damage caused by the fire at the site in Spartanburg, South Carolina, United States, at the end of October 2020. The amount cannot be reliably estimated at this time.

13. REVIEW OF THE CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS

The condensed half-year consolidated financial statements and the interim group management report were neither audited by a public auditor nor subjected to a review (section 115 (5) of the German Securities Trading Act – WpHG).

SEGMENT REPORTING BY OPERATING SEGMENT

in € thousands	engineered products H1 | 2022	engineered products H1 | 2021	flexible films H1 | 2022	flexible films H1 | 2021	surface technologies H1 | 2022	surface technologies H1 | 2021	precision components H1 | 2022	precision components H1 | 2021
Revenue	**76,380**	**60,000**	**102,637**	**67,344**	**32,503**	**30,653**	**22,185**	**22,235**
Segment profit/loss / EBITDA	5,051	5,262	14,018	9,945	4,127	5,901	737	1,890
Amortisation and depreciation	2,791	2,698	3,595	2,011	6,260	5,787	1,976	1,882
Operating result	2,260	2,564	10,423	7,934	–2,133	114	–1,239	8
Investments[2]	4,103	1,753	2,947	1,648	2,749	9,006	3,591	3,039
Working capital	41,623	38,810	50,284	29,127	6,509	4,391	12,017	11,715
Employees (30 June)	887	933	545	365	765	725	646	658

in € thousands	Holding company H1 | 2022	Holding company H1 | 2021	Consolidation[1] H1 | 2022	Consolidation[1] H1 | 2021	Consolidated profit/loss continuing operations H1 | 2022	Consolidated profit/loss continuing operations H1 | 2021
Revenue	**932**	**2,145**	**–1,241**	**–645**	**233,396**	**181,732**
Segment profit/loss / EBITDA	8,028	–4,200	247	893	32,208	19,691
Amortisation and depreciation	363	308	38	40	15,023	12,726
Operating result	7,665	–4,508	209	853	17,185	6,965
Investments[2]	151	43	0	0	13,541	15,489
Working capital	–615	–999	–1	–2	109,817	83,042
Employees (30 June)	62	57	0	0	2,905	2,738

[1] In addition to consolidation items, consolidation also relates to corrections made in connection with the discontinued it/services business. The previous year was restated here because the data centre business was not sold at the same time.

[2] Relates to intangible assets and property, plant and equipment excluding leasing.

RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable accounting standards for interim reporting, we affirm that the interim consolidated financial statements give a true and fair view of the financial position, cash flows and financial performance of the Group, and the group 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, 29 August 2022

KAP AG
Management Board

Eckehard Forberich Member and Spokesman of the Management Board	Marten Julius Chief Financial Officer

FINANCIAL CALENDER

31 August 2022	Annual General Meeting (virtual format)
23 November 2022	Publication of the Q3 2022 interim report
23 November 2022	Vienna Capital Market Conferences Family Office Day
28 November 2022	German Equity Forum, Frankfurt

All dates are subject to change. We publish all financial calendar dates and any updates to these on https://www.kap.de/en/investor-relations/calendar.

CONTACT

Kai Knitter
Head of Investor Relations & Corporate Communications
36043 Fulda, Germany

Phone +49 661 103–327
Email investorrelations@kap.de

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 may not always precisely correspond to the total indicated.

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KAP AG
Edelzeller Straße 44
36043 Fulda
Germany