Annual Report

2016

KAP

Beteiligungs-AG

Cash flow up

30 per cent

Equity ratio

46.8 per cent

Dividend return over ten years

9.5 per cent

Earnings before taxes

almost doubled

CONTENT

KEY FIGURES

GROUP KEY FIGURES

	2016	2015
External revenue	385.8	374.5
Personnel expenses	90.1	86.6
Investments	27.3	16.3
Depreciation and amortization	21.0	21.7
Cash flow[1]	29.1	22.4
Consolidated annual result	12.8	1.5
Fixed assets	147.6	143.8
Equity	147.3	151.5
Equity ratio (in %)	46.8	46.3
Balance sheet total	315.0	327.0
Earnings per share (after minority interest shares) in EUR	1.82	0.14
Dividend per share in EUR	2.00[2]	1.00
Average number of employees	2,616	2,624

[1] Cash flow from operating activities.
[2] Subject to the agreement of the Annual General Meeting.

AG KEY FIGURES

	2016	2015
Other operating income	1.1	3.3
Profit/loss for the year	18.7	-6.2
Fixed assets	142.8	163.1
Equity	96.9	84.8
Equity ratio (in %)	58.9	42.9
Balance sheet total	164.5	197.5
Dividend per share in EUR	2.00[2]	1.00

2016

Financial year 2016 was very successful – witnessing growth in revenue and earnings. And all companies played their part!

Our modified company targets for the future are: profitable growth through acquisitions and operational improvements!

INFO GUIDE-SYSTEM

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LETTER TO THE SHAREHOLDERS

Dear shareholders,

As regards the previous financial year 2016 we are able to report operational successes for our subsidiaries and extensive changes to the group of shareholders. Additionally, we have adjusted our strategic objectives and have started creating the conditions for their implementation within the company.

We are pushing **for strong future growth**

Over the past few months we have revised corporate objectives in close consultation with our Supervisory Board. As result, we will implement an accelerated growth strategy in future with the aim of having a corporate portfolio in the medium term that will generate a sales volume in the region of €500 million. Above all, we will apply minimum qualitative standards to our investments, and we are also prepared to change the established segment structure. We will only acquire restructuring projects in exceptional cases – and only if they represent a meaningful addition to existing investments. However, this also means that in future the same standards will also apply to our existing companies and we may have to streamline our portfolio through some sales.

New major shareholder **The Carlyle Group**

In this context we consider the entry of the Carlyle Group as a new major shareholder to be a very positive development. In November 2016 Carlyle acquired a share in our company of around 53 per cent and in doing so replaced the longstanding anchor shareholder Daun Group. In future we will be able to benefit in particular from the know-how and network of our new major shareholder as we need it. In contrast to Carlyle, however, we are not a financial investor, but a medium-sized investment company with very long holding periods for our investments. Out of this symbiotic partnership, KAP-Beteiligungs-AG will create a platform for example for family-owned companies that have a succession problem but still want to have long-term prospects. We consider this combination – the opportunities of one of the largest financial investors in the world combined with the strengths of a medium-sized investment company – to be highly promising.

In the course of the aforementioned adjustment of our strategic objectives, we have also created the conditions elsewhere for a uniform approach among all subsidiaries – both existing and future. With our new and above all more specific Code of Conduct we are implementing new and existing compliance rules that are binding for all employees. It will take the rest of the current financial year to introduce and implement this – supported by both external and internal training courses to create a deeper understanding of the rules. However, we believe that this effort will be worth it: given that we and our activities are represented in such a wide range of supply chains and regionally in so many countries, each employee at each location should understand and internalize this responsibility-focused mindset. We are creating the administrative conditions for this process in the holding company by increasing staff levels in the Compliance department.

In 2016, we were again able to acquire two new companies that fit with and enhance our existing portfolio. In NOW Contec and Convert Vliesveredelung, both in Waldfischbach-Burgalben, highly successful packers specializing in the winding, cutting, printing, taping and packing of permeable roof lining membranes and agricultural fleeces, we have acquired two companies that ideally complement the value chain of our subsidiary CaPlast. We started by acquiring a minority stake that we will expand into a majority stake by the end of the current financial year. The companies, which were established in 1998 and 1990, are currently making full use of their capacities by packing CaPlast's products and are also working for renowned companies such as DuPont and Freudenberg.

"Although the business optimization at our existing subsidiaries is progressing well, it will take time! MEHLER ENGINEERED PRODUCTS (MEP) in particular needs to further increase its profitability to achieve our intended profit margin of 5 per cent over coming years. However, the path to operational excellence has been clearly defined!"

We wrote that last year – and now, with the figures for the 2016 financial year, we can report another big step towards these stated targets.

EBIT growth **up 50 per cent**

Group revenues of €385.8 million (previous year: €374.5 million) generated in the reporting year means an increase of around 3 per cent, and the EBIT of €18.0 million (previous year: €12.0 million) represents an increase of 50 per cent compared to the previous year.

We are very satisfied with the fact that almost all companies in the investment portfolio have made their contribution to growth and the various measures we have implemented in the past are now having the desired effect. Businesses in the **engineered products** segment and supplying precision parts for the automotive supplier industry in the **automotive components** segment performed well. We have also made good progress at the problem sites of our subsidiary MEP in China and India.

At STÖHR & Co. AG i. L. it has now finally been possible to initiate the final account settlement process, but the delays due to the company audit meant that the deletion of the company in the commercial register was not due to take place until the first half year of the current financial year. We are now able to report that this process has been completed as the company was deleted in March 2017, and the delisting at the stock exchange was of course also executed. All things considered, this was a more protracted procedure than expected, but also one that was ultimately economically successful and there was therefore no better alternative!

At the end of the year we had partly liquidated our extensive securities portfolio. We generated revenue of €13.3 million. The sale of 60,000 shares of Allianz SE and 210,834 shares of Deutsche Bank AG contributed earnings of €4.6 million to our annual result. As at December 31, 2016, the remaining securities portfolio was still worth €18.6 million and we also sold this at the start of 2017.

To conclude, one further note on our performance on the stock exchange: Following the entry of our new major shareholder and initial statements on our future growth strategy in autumn of last year, our share price rose and today is listed consistently above the €30 mark – and with large trading volumes by our standards. We see this as confirmation that the capital market considers our objectives to be correct and plausible.

Dividend return
9.5 per cent over ten years

Proposed dividend
€2.00 per share

Similarly, the 2017 dividend survey of the Deutsche Schutzvereinigung für Wertpapierbesitz (German Society for the Protection of Securities Holders) ranks us for the third time among the top five of all German listed public limited companies given the average dividend return of 9.5 per cent p. a. for the last ten years. This places us ahead of almost all DAX and MDAX companies – which in a zero-interest era is quite something!

We recommend that the Annual General Meeting approves payment of a dividend of €2.00 per share, an increase of €1 compared to last year. Additionally, we will propose that the Annual General Meeting approves authorized capital of 20 per cent of the existing share capital so we can react flexibly to potential financial requirements in future.

We are optimistic for the current financial year and are planning, with revenues of over €400 million, a disproportionate increase in the operating result of around €16.5 million without special effects and with a comparable consolidated group.

Kind regards

The Management Board

COMMITTEES

Management Board

Dr. Stefan Geyler, Spokesperson
(to April 24, 2017)
Dipl.-Physiker, Bonn, Germany

No further mandates

André Wehrhahn, Commercial Director
MBA, Fulda, Germany

No further mandates

Fried Möller, Deputy Member of the Management Board
(from April 27, 2017, delegated from the Supervisory Board)
Dipl.-Kaufmann, Stadtallendorf, Germany

Further mandates:
KAP Textile Holdings SA Ltd., Paarl, South Africa[1]

Supervisory Board

Ian Jackson, Chairman
Managing Director at The Carlyle Group, Richmond, United Kingdom

Further mandates:
Klenk Holz AG, Oberrot, Germany[2]
CANAVERAL HOLDCO LIMITED, London, United Kingdom[1]
CANAVERAL BIDCO LIMITED, London, United Kingdom[1]

Fried Möller,
(to April 27, 2017, delegated to the Management Board)
Dipl.-Kaufmann, Stadtallendorf, Germany

Further mandates:
KAP Textile Holdings SA Ltd., Paarl, South Africa[1]

Christian Schmitz
Managing Director at The Carlyle Group, London, United Kingdom

No further mandates

Uwe Stahmer
(from May 4, 2017)
Bad Zwischenahn, Germany

No further mandates

[1] Member of comparable domestic and foreign control committees.
[2] Member of domestic supervisory boards required by law.

ELBTAL PLASTICS

ELBTAL PLASTICS

120 years steeped in the art of German engineering and over 60 years' experience in the manufacture of PVC films form the basis of our operations at the Coswig site. Groundbreaking developments such as the first PVC coating in Germany in the 1930s attest to the innovation of the site.

Realigning the company to concentrate on the manufacture of swimming pool membranes and liners in 2010 and the focus on this core business area laid the foundation for the current success of ELBTAL PLASTICS.

Special technical films and sealing membranes represent a logical addition to the core business segment and are still manufactured in the company.

Today, only six years later, revenues have doubled and the company is one of the world's leading manufacturers in this market segment, renowned for its top-class quality. In 2016 more than 2,600,000 m^2 of swimming-pool liners was supplied to the global market.

Customers from around the world value the company's competence, personal commitment and service. ELBTAL offers expert and comprehensive solutions – not just a product. State-of-the-art manufacturing technology, efficient laboratory and development facilities, an up-to-date quality management system and an international team consisting of engineers, application technicians, chemists and marketing/sales managers are the cornerstone of the company's success.

ELBTAL PLASTICS

ELBTAL PLASTICS

The company places great weight on the use of top-grade raw materials that are procured around the world in compliance with strict requirements and are checked for purity and conformity before every use. No pre-mixed raw materials are used at all – that's the only way that ELBTAL can guarantee that pure, fresh components are used at all times and its leading position as a quality supplier is retained.

The first stage in the production process is to mix solid and fluid formula components in a mixer. All raw materials are added automatically. All processes are managed and monitored via the computer system in the control room of the blending plant.

Each phase is documented in the system in order to retain all evidence for purposes of ISO certification.

The dry blend (powder) achieved at the end of the process is added to the extruder by screw conveyors. The extruder then performs the plastification process.

ELBTAL PLASTICS

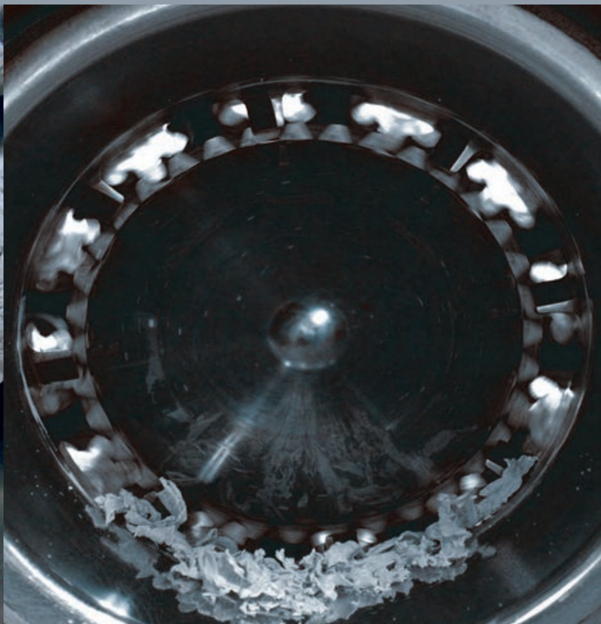

25t

ELBTAL PLASTICS

The plastic mass is then rolled and shaped to produce a film on a state-of-the-art manufacturing system (calendering line). The plastic mass is transported to the calender ↗ by a swiveling conveyor belt. Cameras show the operator the fill level of the first nip.

↗ Glossary Page 150.

This process and the forming of the film is carried out across four rollers with a surface temperature of up to 210°C. The films are produced at thicknesses of between 0.10mm and 1.00mm with a precision of 2mµ. Constant automatic thickness measurement guarantees compliance with all stipulations.

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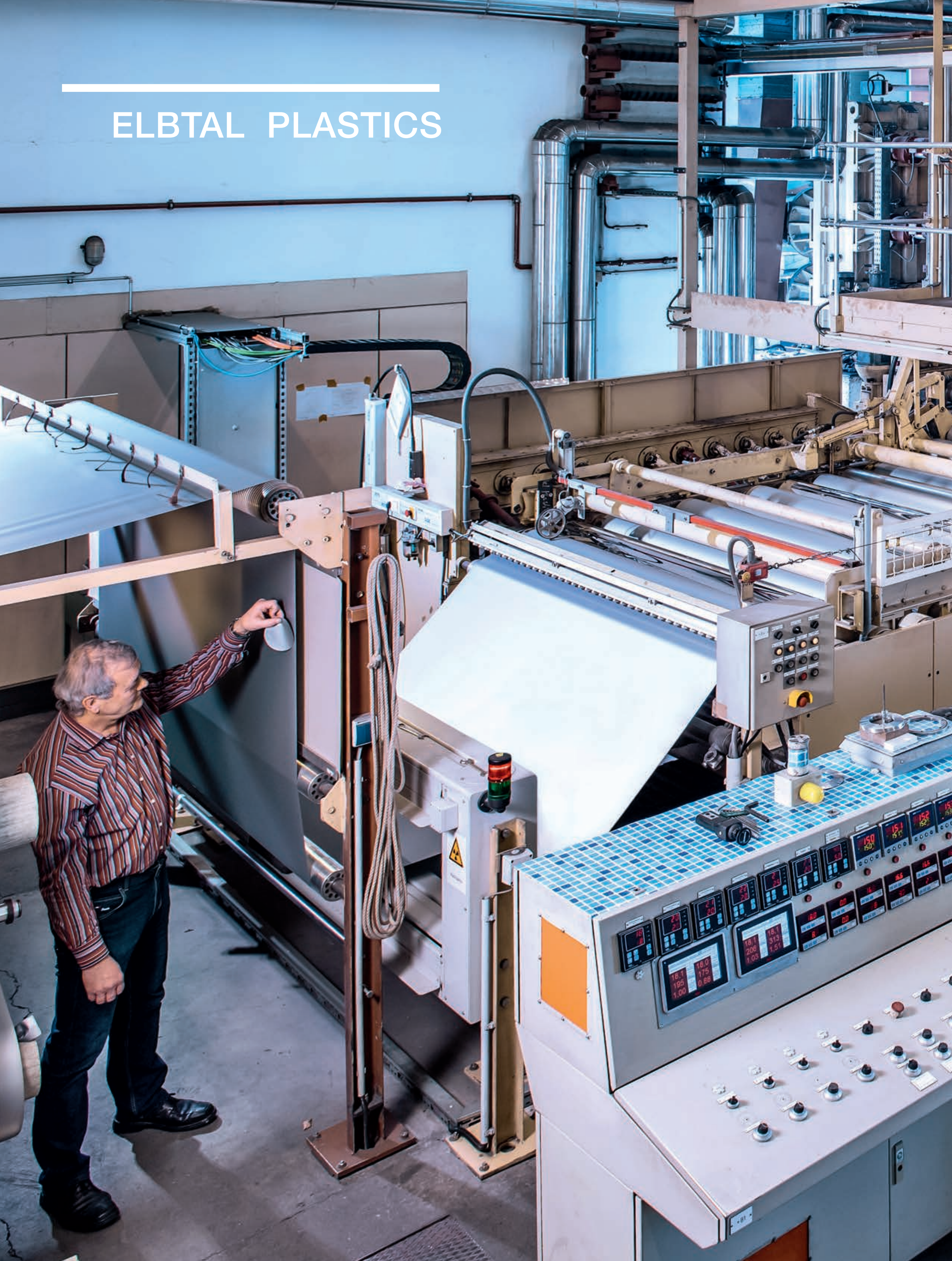
ELBTAL PLASTICS



ELBTAL PLASTICS

The fully automatic calender has a capacity of up to 50,000m^2 per day and is utilized around the clock in three-shift operation. An integrated laminating machine handles the duplication of films and webbings up to a total thickness of 1.50mm and widths of up to 2.0m.

Twelve cooling rollers ensure a clearly defined cooling process down to 2°C for the film, which exits the calender ↗ at around 165°C.

↗ Glossary Page 150.

A large roll winder then winds jumbo rolls, which are later rolled out to the sales dimensions.

The quality is monitored both automatically and with visual inspections.

All manufacturing stages are guided and monitored by computer.

ELBTAL PLASTICS

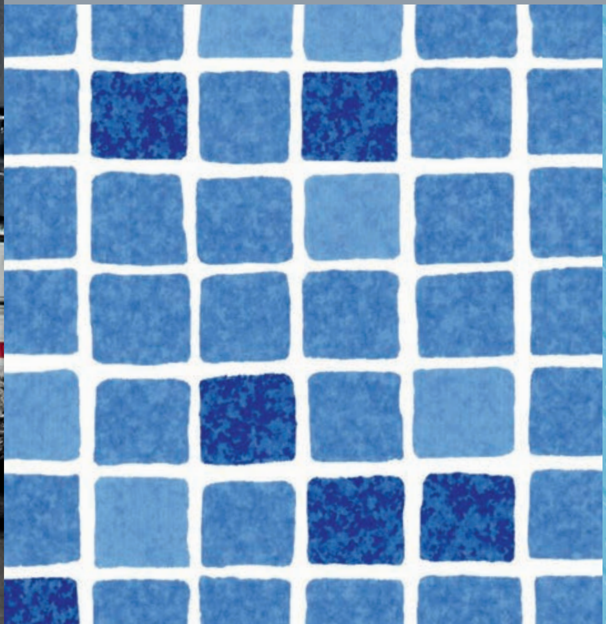
ELBTAL PLASTICS

Quality control does not end with the manufacture itself. The storage and packaging of the semi-finished and finished goods also require high levels of precision.

Jumbo rolls are stored exclusively in a suspended position to guarantee the quality of the product for subsequent production – be that covering, refining or other processes.

At the beginning of the season our high-bay ware-houses contain products worth several million euros to guarantee that they can be delivered when the season kicks off.

Our raw materials store, manufacturing, refining and finished-goods warehouse are concentrated in an operating area of over 40,000m².



ELBTAL PLASTICS

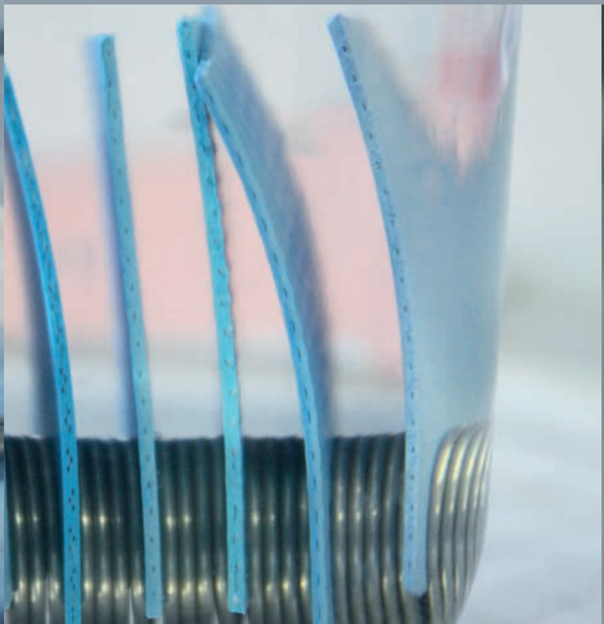
ELBTAL PLASTICS

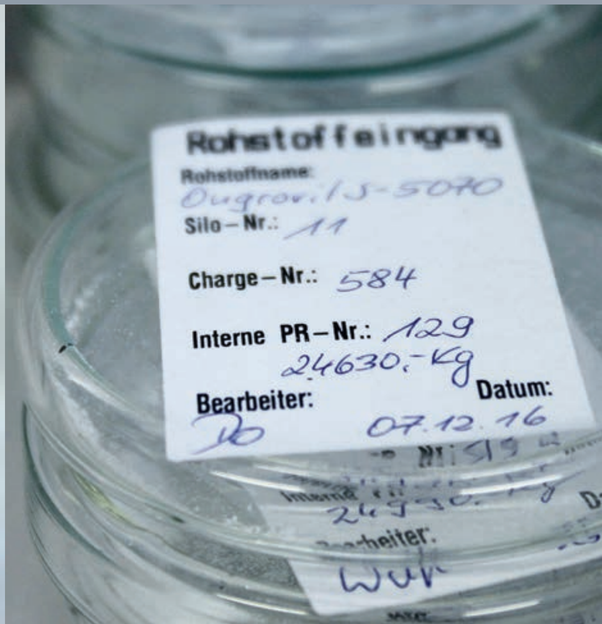
One of the company's core competences is the expertise in formula development, raw-materials selection and quality assurance amassed over decades.

The new laboratory, which was opened in 2016 and is fitted out to the latest standards, plus experienced, competent and creative engineers, laboratory staff and chemists give us the strength and the capability to innovate, to optimize existing products and processes and to properly evaluate past events.

This independence is a key to our success. At the same time, we work with universities, institutes and laboratories so we are always up to date with the latest developments.

The laboratory also performs the goods-in check of all raw materials and the inspection of the finished products to ensure that specifications are complied with.






ELBTAL PLASTICS

ELBTAL PLASTICS

True to the motto “discover your passion”, we manufacture reinforced swimming pool membranes and pool liners for customers in more than 50 countries. As the world’s only film manufacturer we focus on this market and concentrate all our resources on the development of this core business area. We offer our customers not only a product, but also a comprehensive solution – from training courses through project assistance up to marketing support. After all, only a perfectly-laid product guarantees satisfied customers and partners.

Our new training center, opened in 2015, offers ideal conditions for conveying both theoretical and practical knowledge comprehensively. Our experienced trainers come from a practical background and are therefore also available for supporting projects on the ground.

All skills and knowledge required for installing our swimming pool membranes are taught in two stages.

ELBTAL PLASTICS

ELBTAL PLASTICS has developed into one of the world's leading manufacturers in the swimming pool market. In our "Vision 2020" we set down the objectives and future strategy of the company in 2014. We face challenges with motivation, creativity, innovation and passion.

Our focal point will be on developing new qualities in our core business segment in order that we can create even better conditions for our users and processors.

We are also focusing on new areas of application promising global demand for special films. Our Business Development team is working intensively on these challenges.

New markets in South America and South East Asia will further contribute to growth.

We are ideally prepared and convinced that we will achieve our goals"

Michael Schumann
CEO

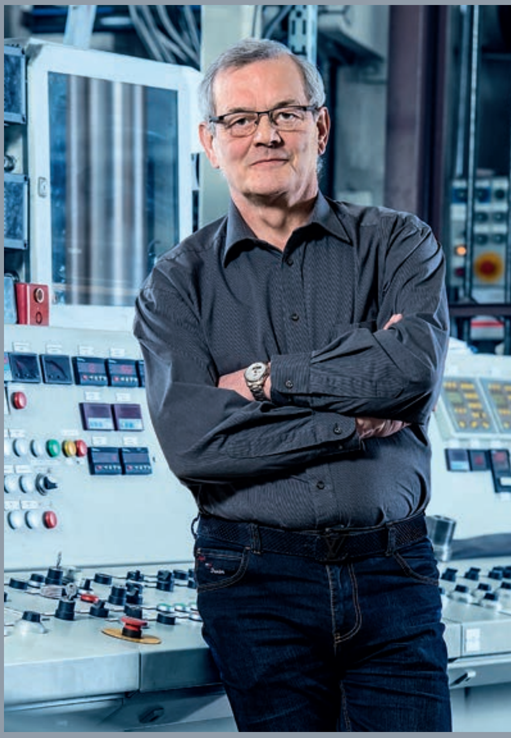
https://www.kap.de/beteiligungen/engineered-products/elbtal-plastics.html

"When I started as a member of the sales staff at ELBTAL 14 years ago, shortly after graduating, the company was a regular manufacturer of PVC films. I am proud to have played my part in making the company into one of the world's leading companies in the swimming pool liner market."

Daniel König, Authorized Signatory
Sales Director

"I have worked at the site for more than 45 years and put my experience, knowledge and skills to good use for the company. One of my key tasks is passing my knowledge on to young and committed employees to guarantee the positive development of the company in the future. As I see it we are ideally prepared for the challenges of the future!"

Carsten Schadewitz, Authorized Signatory
Head of Production/Technology



SEGMENTS
engineered products

The **engineered products** segment accounts for almost 75% of the Group revenue and represents companies in the technical textiles sector. This product sector includes the production of textile fabrics, scrims and threads that are finished by chemical and physical processes to meet the most diverse and specialized customer requirements. The products are used in the automotive and construction industries and in plant construction.

Measured by the number of employees, MEHLER ENGINEERED PRODUCTS (MEP) is the largest investment company in this segment. MEP operates production facilities in Germany, the Czech Republic, the USA, India and China, making it a competent partner worldwide for a wide range of applications within the rubber industry. 50% of the technical threads and fabrics produced by MEP are used in the automotive and tire industries. Typical examples of use are tires, inner tubes, drive belts and pneumatic suspension systems.

MEP earnings
over budget

For MEP, the business developed almost exactly according to plan in terms of revenue and the company recorded significant growth compared to the previous year. However, the picture is somewhat different when one considers the earnings situation: even though our plants in India and China were able to increase the volume of sales significantly, the EBITDA achieved was slightly below our expectations. Significant progress has been made in terms of optimizing the processes in both India and China, and they are now working flat out on positioning the higher-quality products on the market with higher margins. Our MEP business in the USA met its revenue target but, all things considered, also came under pressure. In the final analysis, it was the good results achieved by MEP's German and Czech units that pulled the MEP Group's results up to a level above that of the forecast and the previous year.

In 2016 Synteen & Lückenhaus GmbH was merged with OLBO & MEHLER Tex GmbH & Co. KG (OMT) in order to leverage synergies. As a result of the merger, OMT can now offer a wider range of technical textile products, so that it is now present on the market with a very successful range of products for the mining and raw material extraction industries, as well as for the automotive, geotextiles, medical technology and agricultural technology sectors. OMT has successfully reduced its former dependency on the mining industry. Furthermore, the Group carried out a successful streamlining of its customer portfolio in order to drop some of its low-margin customers. As a result, its revenue was below plan, but its earnings were as planned.

Our investment company, CaPlast, specializes in the coating of tiles, woven fabrics, films and paper. Its main products are high-quality membranes for pitched roofs. CaPlast's revenue exceeded that of the previous year and the budget. In particular new products were very well received by the market. However, in terms of the result, the year was somewhat more difficult for CaPlast, and figures remained slightly below expectations. The main reasons for this were a major customer complaint and the poor development of the Turkish CaPlast subsidiary.

New investment
NOW Contec

In the reporting year, we started by acquiring a minority share in NOW Contec and Convert Vliesveredelung in Waldfischbach-Burgalben, two very successful finishing companies specialized in the winding, cutting, printing, gluing and packaging of diffusion-open roof sarking membranes and agricultural fleeces. The companies, which were founded in 1998 and 1990 respectively, are now running at full capacity, finishing the CaPlast products whilst also working for notable companies such as DuPont and Freudenberg. Only due to its outsourcing of virtually all of these tasks to these two companies, CaPlast is now in a position to cope with further expansion. At the end of the current financial year we will purchase further shares.

The two companies Elbtal and Riflex can also look back on a successful 2016. Both are highly specialized film manufacturers with production plants in Germany and Sweden. Their revenues developed very positively: not only did they exceed the figures for the previous year, they also achieved the goals they had set for themselves. And it is the same story with their earnings. Elbtal's distribution company in the USA, on the other hand, did not meet its targets in the reporting year. The attempt to place a European solution on the American market proved more difficult than initially assumed. However, we are confident that we will be successful in the American market in the medium term.

With Elbtal in conjunction with Riflex, as well as with CaPlast and the newly acquired NOW Contec, we are pursuing our goal of expanding the value chain of our existing investment companies and creating additional capacity at their established production sites.

Kirson with strong
operating result

As a manufacturer of reinforcing scrims, Kirson showed a very stable performance in the premium segment in 2016. Kirson achieved the same good level of revenues as previous year as planned, and earnings improved – measured against the previous year and the forecast. The company has been producing top quality products for many years and is in a position to offer its products to customers at attractive prices, thereby ensuring the success of the company. However, in the market segment dominated by Kirson, the indications are that only limited further growth is now possible.

Several years ago, the companies it-novum and Mehler Engineering and Services (MES), which also belong to the **engineered products** segment, developed from internal service departments into successful service providers, with mostly external customers. it-novum specializes in the area of open-source applications. In 2016, they were able to sell a completely self-developed software system at an attractive price. With this special effect of €4.1 million, it-novum made a substantial contribution to the success of this segment in 2016.

MES is concerned with company relocations, maintenance services and the development of innovative drying systems. In 2016, MES also showed a solid performance, delivering a result that was slightly above the previous year's level.

Segment earnings
more than doubled

With an increase in revenue to €282.3 million (previous year, €265.8 million), the **engineered products** segment met its forecasted revenue target precisely. The segment result was more than doubled to €16.5 million (previous year, €8.0 million). However, this is also due in part to one-time effects. Accordingly, the forecast of €11.0 million for 2016 was more than achieved.

in € million	2016	2015
Revenue	282.3	265.8
Segment result	16.5	8.0
Investments in plant, property and equipment	13.5	8.2
Employees	1,580	1,559

1

See segment reporting by operations, page 130 f.

https://www.kap.de/en/legal-structure/engineered-products.html

SEGMENTS
automotive components

Under the umbrella of GM Tec Holding, the **automotive components** segment represents all the activities in the areas of metal, plastic and hybrid processing for use in the automotive industry. The core skills of the Group lie predominantly in the manufacture of high-precision components for automotive suppliers.

In the past financial year the segment's revenue rose above €100 million, which was only slightly below our original forecast.

The Geiger Group, which consists of Geiger and Präzisionsteile Dresden (PTD), belongs to this segment and is able to look back on a positive financial year. Geiger specializes in high-precision metal components, which are used predominantly in the automotive industry. During the course of the financial year, orders from customers remained very stable, with the result that Geiger met its revenue target precisely. Optimizations in the production process and other measures led to a further improvement in earnings compared to the previous year.

The financial year was less successful for PTD, which is part of the Geiger Group. Although PTD was able to increase its revenue significantly compared to the previous year and its budget, its earnings only improved to a degree. Even though the earnings situation has improved slightly compared to the previous year, they still did not meet the forecasts.

The Gear Motion Group is a highly specialized manufacturer of gears and cogs and related parts made out of metal, plastic or a combination of both. It can now be said that the Gear Motion Group has achieved an impressive turnaround. The revenue for the year is higher than the previous year's revenue and the budget figures. The earnings growth was also very satisfactory and much higher than in the previous year and compared to the budget. It is evident that the reorganization efforts of the past few years are now being reflected positively in the earnings.

The Bebusch Group also belongs to the **automotive components** segment. It specializes in the manufacture of composite plastic-metal components. Its products range from casing components to complex system solutions. While Bebusch Hungary met its revenue and earnings targets precisely, the Bebusch plant in Haslach was below the previous year's figures and the forecasts. The reason for this was the under-utilization of the production capacity.

Segment earnings **significantly increased**

Overall, the **automotive components** segment performed very satisfactorily during this financial year. Although the revenue, as already stated, was slightly under the forecast figures, the efforts to improve earnings have borne fruit. The segment result increased by 73% to €2.6 million (previous year €1.5 million).

in € million	2016	2015
Revenue	104.9	106.6
Segment result	2.6	1.5
Investments in plant, property and equipment	10.8	6.9
2 Employees	985	1,008

↗ See segment reporting by operations, page 130 f.

https://www.kap.de/en/legal-structure/
automotive-components.html

THE SHARE

https://www.kap.de/en/investor-relations/shares.html

2016: A TURBULENT YEAR ON THE STOCK MARKET

In 2016 the global capital markets continued their volatile development from the previous year, which was influenced to a large extent by political and macroeconomic uncertainty. Concerns about an economic slowdown in China and a sharp fall in the oil price contributed directly to high levels of uncertainty at the start of the reporting period, which resulted in veritable panic sales on the stock market, especially in January.

After the German share index DAX reached its lowest point of the year on February 11 at 8,699 points, with the MDAX also falling to a low of 17,595 points, the European Central Bank reduced its deposit rate on March 16 to -0.4 per cent and raised its monthly bond purchases to €80 billion.

Dividend return
4.4 per cent

The narrow decision of the British to leave the European Union resulted in renewed uncertainty on the global markets at the end of June, although a lasting shock to the stock market was not forthcoming. Indicators of a stronger US economy, a stabilizing oil price and the laxer long-term monetary policy in Europe ultimately returned the DAX to its year-start level of 10,743 points in the third quarter. In particular, financial securities benefited not only from expectations of higher US interest rates, but also from an easing of concerns regarding the economic effects of the decision by the British to leave the European Union. The surprising result of the US presidential election at the start of November put the financial markets under short-term pressure. The prospect of fiscal policy measures, massive tax reductions and not least significantly lower regulatory requirements for the financial industry generated surprisingly substantial gains on the global stock markets.

The well-received decision by OPEC to cut oil production after years of inactivity lent momentum to the recovery of the oil price. At the start of December, the failed referendum in Italy and the subsequent resignation of the Italian Prime Minister posed a stress test for Italy and the EU; however, the political event had no lasting effects on the stock market. Over the twelve-month view, the DAX was up 6.7 per cent as at December 31.

After a highly turbulent year, both the DAX and the MDAX were up at year-end, buoyed by strong economic data, the fall of the euro against the US dollar and the rising oil price. On December 30, 2016, they closed at their highest levels for the year of 11,481 (previous year: 10,743) and 22,189 (previous year: 20,775) points respectively. Compared to the previous year, the leading German index rose by 6.9 per cent, whilst the MDAX achieved an increase of 6.8 per cent.

THE KAP SHARE

The subscribed capital of KAP-Beteiligungs-AG totaling €17.224 million remains divided into 6,624,446 shares with an arithmetic share in the share capital of €2.60 per share. The share is listed on the Frankfurt stock exchange. All shares carry a voting right. As at the reporting date December 31, 2016, market capitalization stood at €140 million.

The development of the KAP share price was also turbulent in the reporting year and reflects both the further improvement of the operational successes of our investment company and also the severe events, above all in the fourth quarter. From the start of 2016 to the end of 2016 the price fell slightly from €22.86 to €21.10, without taking the paid dividend of €1.00 into account. This distribution alone means a dividend return of 4.4 per cent.

With an above average dividend return of 9.5 per cent p. a. for the last ten years, we are incidentally again in the top five of all listed German companies according to the latest dividend survey by the DSW!

Entry of
The Carlyle Group

From the start of the year to July 2016, the price fell continually until its annual low point of €18.00, but not without repeated short upward movements in the interim. Thereafter the price rose constantly up to the Annual General Meeting at the end of August and at €20.50 marked a short intermediate high compared to the Annual General Meeting date. After the dividend payout, the price moved within a sideways range of €18.85 and €19.85 with small trading volumes. After the ad-hoc publication on the acquisition of a stake in Daun & Cie. AG and SvR Capital GmbH, together totaling 53 per cent of the voting capital of the company, by the financial investor The Carlyle Group, the price with high trading volumes leapt up to €23.00, to then fall slightly to the year-end price of €21.10 by the end of the financial year. In the first three months of the current year, our share price rose sharply with continually high trading volumes for our share and reached a high of €34.50.

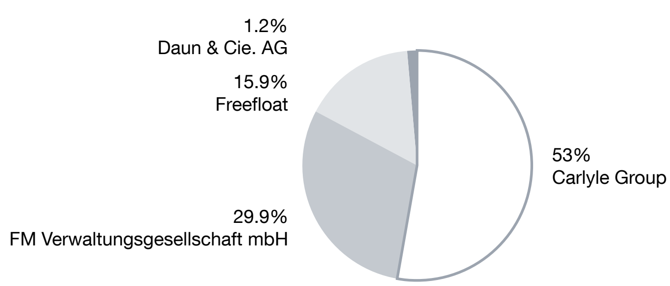
The strong price performance of the share since the entry of the new major shareholder The Carlyle Group is certainly an expression of the high expectations for the company's future growth strategy. We will step up our investor-relations efforts to explain this strategy and its implementation to the financial community in a consistently transparent manner.

Annual General Meeting 2017

The Annual General Meeting will take place on July 7, 2017, in Frankfurt am Main. Shareholders will obtain their invitation and agenda from their depositary banks.

The financial calendar is updated regularly. You can find the latest dates on the web page www.kap.de/investor-relations/finanzkalender.

Shareholder structure of KAP 12/31/2016
in %



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KEY INDICATORS OF THE KAP SHARE

	2016	2015
Earnings per share (€)	1.82	0.14
Gross cash flow per share (€)	4.40	3.38
Book value per share (€)	21.93	22.30
Equity (excluding minority interests) (€ thousands)	145,285	147,713
Dividends per share[1] (€)	2.00[2]	1.00[2]
Distribution amount[1] (€)	13,248,992[2]	6,624,446[2]
Dividend yield[1] (%)	9.5	4.4
Year-end stock market price[3] (€)	21.10	22.86
Highest[3] (€)	23.20	38.14
Lowest[3] (€)	18.00	19.60
Number of shares as of December 31 (shares)	6,624,446	6,624,446
Year-end market capitalization[1] (€ thousands)	139,776	151,435

3

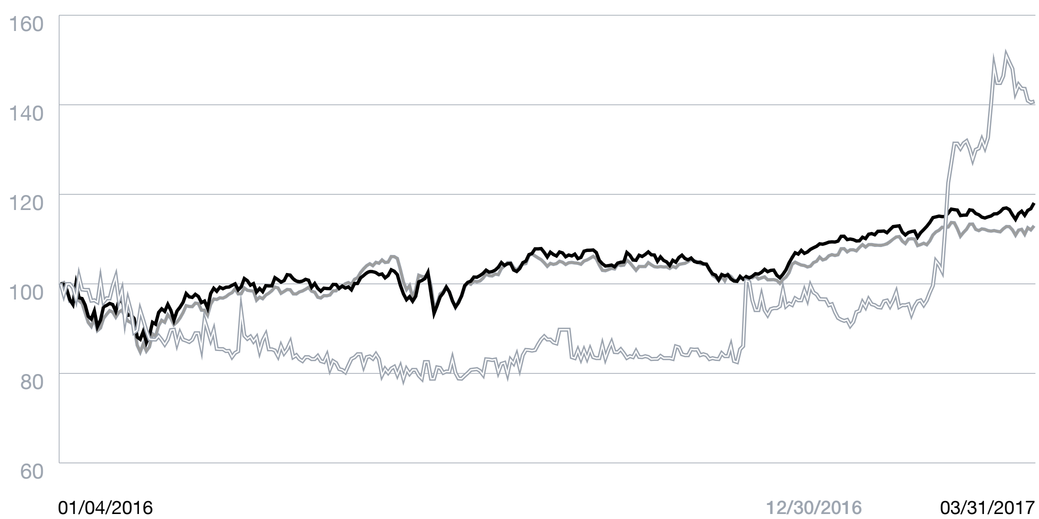
[1] For the respective financial year.
[2] Subject to the approval of the Annual General Meeting.
[3] Information relates to the closing price on the Frankfurt Stock Exchange.

KEY DATA OF THE KAP SHARE

Securities identification number	620840
ISIN code	DE0006208408
Stock exchange symbol	IUR

4

KAP SHARE PERFORMANCE



2

KAP stock in EUR
Closing price 03/31/2017:
32.74 EUR

MDax
closing price 03/31/2017:
23,904.08 Punkte

SDax
closing price 03/31/2017:
10,092.59 Punkte

COMPLIANCE REPORT

As an international, listed corporation with headquarter in Fulda, Germany, KAP-Beteiligungs-Aktiengesellschaft is subject to the regulations of the German Stock Corporation, Capital Market and Co-determination Act and the provisions of its own Articles of Association and the internal guidelines.

At the end of 2015 we reviewed our compliance system and consequently began to introduce a new formalized Compliance Management System across the Group. It describes the code of conduct as well as topics such as corruption and antitrust law, human rights, work and social standards, conflicts of interest, trade control and data privacy. The introduction of the new Compliance Management System is intended to ensure that all company activity worldwide is in line with statutory provisions and internal guidelines. Employees and management can already draw on many guidelines for the regulation of various business procedures; but in its entirety this regulatory framework does not yet represent a systematic compilation of legal obligations and will be completed and supplemented gradually. Above and beyond that, the potential risk of breaches of duty is to be countered with a corresponding organizational structure, which is also embedded in our risk management.

In 2009 KAP-Beteiligungs-AG introduced a whistleblower system, which is to be integrated in the projected Compliance Management System. The same applies to our sales tax risk assessment, which has been implemented at least twice a year since 2014.

Introduction of the new
Code of Conduct

Apart from that we already have many years of experience with our risk management system; these experiences will also influence the setup of our Compliance Management System. The external audit firm that we instructed to conduct the Compliance Risk Assessment and the GAP analysis presented its report in 2016. On the basis the risk situation identified in the report, further measures and their implementation were determined. In December 2016 anti-corruption and anti-sanction guidelines were implemented worldwide and employees were provided with the corresponding training on the contents of these guidelines. We are also planning with the appointment of a Chief Compliance Officer to set up a strong personnel structure for our Compliance Management System. Furthermore, the introduction of additional internal guidelines and regulatory frameworks, such as a code of conduct, as well as the implementation of a training concept, will lead to better acceptance among employees and eventually to the entrenchment of a compliance culture within the KAP Group. Finally, we are planning to introduce a “due diligence with business partners” global guideline.

The Chief Compliance Officer is to coordinate the implementation of the Compliance Management System and regularly report to the Management Board on the status of the implementation as well as current developments.

GROUP MANAGEMENT REPORT

BUSINESS MODEL

KAP-Beteiligungs-Aktiengesellschaft (KAP-Beteiligungs-AG) is a listed participation company that provides a broad range of services to its subsidiaries as a strategic financial holding. We participate in small and medium-sized corporations of varying sizes, providing them with the financial resources they need for their success in their markets. The competent contact that supports them in strategic questions, and the group network, which facilitates worldwide sales success. We provide the strategy and jointly define medium and long-term goals in close coordination with the respective managers. They are given the entrepreneurial freedom to implement these goals, but are embedded in the overall management of the Group through our reporting and risk management system in order to be able to prevent mistakes in a timely and efficient manner. In order to control the strategic business units, we use balance sheet, income and liquidity-oriented key figures, and in particular sales, operating result, cash flow from operating activities, property investments and working capital. In this way, we ensure that countermeasures can be initiated at an early stage in case of deviations. We consider these control variables, whose efficiency has proved successful in the past, to be an essential component of our success.

OVERVIEW OF THE FINANCIAL YEAR

Operating result
50 per cent over budget

The 2016 financial year has brought us a good deal closer to our goals. After a good fourth quarter, we were able to significantly exceed the forecast of sales of over €380 million that had been generated one year ago, with an operating result of €13 million.

Group sales of €385.8 million (previous year: €374.5 million) represent an increase of around 3% and Group operating profit (EBIT) of €18.0 million (previous year: €12.0 million) an increase of 50% compared to the previous year.

Almost all companies in the investment portfolio contributed to the growth. The businesses in both the **engineered products** segment and the precision components for the automotive component industry in the **automotive components** segment performed well. We also made good progress with the problem sites at our subsidiary MEP in China and India.

Special income of €4.1 million from the subsidiary it-novum and from the sale of land totaling €0.9 million (previous year: €3.2 million) also contributed to the good result. The result adjusted for the special income has therefore increased by 48% from €8.8 million to €13.0 million.

We have also been able to acquire two new companies in the 2016 financial year, NOW Contec GmbH & Co. KG and Convert Vliesveredelung GmbH & Co. KG in Waldfischbach-Burgalben, two very successful assemblers specializing in the re-rolling, cutting, printing, gluing and packaging of diffusion-open roof trestles and agricultural fleeces. We have initially acquired a minority interest and will take over additional shares at the end of the current financial year. Founded in 1998 and

1990, the companies are now investing their capacities heavily in the manufacture of CaPlast products and are also supplying major companies such as DuPont and Freudenberg.

We are particularly positive about the acquisition of the majority interest by the Carlyle Group. We have developed a new common agenda from the collaboration, which is: growth. We can particularly benefit from the Carlyle Group's know-how and network. In contrast to Carlyle, we are not a financial investor, but a medium-sized investment company with very long holding period for its investments. KAP-Beteiligungs-AG thus offers an ideal platform, for example, for family companies that have a succession problem but still want to have long-term prospects. This combination – the capabilities of one of the largest financial investors in the world, combined with the strengths of a medium-sized investment company – is probably unique in the German-speaking world. And these strengths now have to be translated into new business.

engineered products
earnings doubled

The **engineered products** segment continued to gather pace with revenue increasing by 6.2% to €282.3 million (previous year: €265.8 million). The segment result more than doubled to €16.5 million (previous year: €8.0 million) due to the special income from it-novum. With regard to our revenue forecast of €282 million, we made a precision landing. We have more than achieved the projected segment result of €11 million. The companies MEHLER ENGINEERED PRODUCTS (MEP) and OLBO & MEHLER Tex (OMT) mainly contributed to the improvement of the segment result. MEP China, in particular, is pleasing with a considerable improvement of result. Here the goal for 2017 is to break-even. OMT benefited from the fact that the holdings Synteen & Lückenhaus were merged with OMT in the second quarter. The first positive synergy effects are already beginning to emerge. The other companies in the segment – CaPlast, Elbtal, Kirson and Riflex – have maintained or even improved slightly the good earnings level of the previous year.

automotive components
very positive

At €104.9 million, our **automotive components** segment was only slightly below the previous year's figure of €106.6 million, despite the more difficult market environment. Thus also below our forecast to achieve sales on the previous year's level but with a significantly better segment result than projected. The drop in unit sales for injector bodies for truck diesel was responsible for the slight decline in segment sales. Despite this, the segment result increased to €2.6 million (previous year: €1.5 million). The Gear Motion Group was particularly successful. Thanks to many new products, sales increased, and earnings rose. Despite the above-mentioned drop in sales for the injector bodies and the resulting decline in sales, the Geiger Group managed to break even for the first time in many years thanks to further efficiency improvements. The development of Bebusch GmbH, where sales and earnings declined markedly, was a disappointment.

In the **all other segments**, in which we reflect all non-operating activities, no revenue was generated as at the real estate company Schäfflerbachstraße, Augsburg, no investor has been found yet for the project "Design-Hotel im alten Kesselhaus" (Design Hotel in the Old Boiler house). Dropping by €-4.0 million (previous year: €-0.3 million), the segment result was much worse than planned. We had originally expected sales of approx. €4 million with a segment result of €0.8 million for the financial year just completed.

At STÖHR & Co. AG i. L., the final account settlement could finally be initiated, but due to the delays caused by the company audit, the deletion of the company in the commercial register is due to take place in the first half year of the current financial year.

We partially liquidated the securities portfolio. The proceeds totaled €13.3 million. The disposal of 60,000 Allianz SE shares and 210,834 Deutsche Bank AG shares contributed €4.6 million to the result. The remaining securities portfolio amounted to €18.6 million on 31 December 2016 and was sold at the beginning of 2017. Our earnings before income taxes amounted to €20.5 million (previous year: €10.8 million) and net financial debt on the balance sheet date was €65.2 million (previous year: €59.3 million). At €29.1 million (previous year: €22.4 million), cash flow from operating activities was approximately 30% higher than in the previous year.

At €24.7 million (previous year: €15.5 million), capital investment in fixed assets was higher than in the previous year, but in accordance with the plan that focused investment on MEP, PTD and CaPlast. Depreciation and amortization amounted to €19.8 million (previous year: €20.6 million). As at the balance sheet date the Group had 2,597 (previous year 2,597) employees.

Planned revenue for 2017
> €400 million

In the current financial year we are also planning to increase sales and improve profitability. The threshold of €400 million in sales is achievable, and the result should at least be close to the 2016 result, only this time without special income.

ECONOMIC ENVIRONMENT AND DEVELOPMENT 2016

Global economy and economic development in Europe

According to World Bank experts, world economic growth will pick up momentum again in early 2017. For the current year they are forecasting growth in global economic output of 2.7%. For 2016 they had predicted growth of only 2.4% due to low commodity prices and a depression, especially in industrialized countries. After years of disappointing global growth, the World Bank now sees better economic prospects on the horizon.

Uncertainty still exists over the future path of the U.S. as the world's largest economy. The announcements by President Donald Trump about stimulating the economy with infrastructure projects, for example, could lead to faster growth in the U.S. and the world over. On the other hand, according to the World Bank, Trump's tendency towards protectionism is a major obstacle.

The World Bank predicts an accelerated increase in gross domestic product of 2.2% (2016: 1.6%) for the U.S. this year, but a slowdown in China of 6.5% (2016: 6.7%).

The World Bank experts believe that growth in industrialized countries will rise to 1.8% of economic output. As a result, emerging and developing countries are expected to grow by 4.2% due to slowly rising commodity prices, as opposed to 3.4% in the past year.

Unemployment in the eurozone fell further to 9.8% (previous year: 10.5%) at the end of the year under review, which is the lowest level since 2009. The figures for the EU28 are even better: according to Eurostat, the figure at the end of November 2016 was 8.3%, compared to 9.0% in the previous year. This means that 15.898 million people were unemployed in the eurozone.

The recessionary trends in commodity-exporting emerging markets such as Russia and Brazil declined as listings of many industrial and agricultural commodities rose again slightly towards the end of the year. In addition, since the spring of 2016, the oil price has been largely stable at about US$45 per barrel, after falling below the US$30 mark in January 2016. Two opposing effects are crucial for oil price stability. On the one hand, there was an increasing demand for oil, mainly from

China and India. On the other hand, negotiations between OPEC members led to a limitation of oil production. Finally, in November 2016, an agreement was reached in which Russia also participated that led to a rise in the oil price to over US$50 per barrel.

Economic development in Germany

The German economy is in very good shape. In 2016 its gross domestic product increased by 1.9% (adjusted by calendar year: +1.8%). This is the highest rate of growth since 2011. Last year GDP grew by a similar percentage (+1.7%).

Record employment
43.7 million persons in employment

One success story in Germany is the positive employment situation. In 2016, 43.7 million people obtained employment. According to the annual economic report of the Federal Ministry for Economic Affairs and Energy (BMWi), this number will increase by 320,000 people in 2017. Compared to 2013, the number of employees increased by around 1.5 million last year, and compared to 2005, by more than 4 million. The high immigration of refugees, unlike the immigration of people from within the EU, will cause a gradual increase in employment, but also in unemployment. The unemployment rate is currently at its lowest level for 25 years and is likely to stabilize at the 6% mark. The rate of youth unemployment is at its lowest in the European Union.

The good economic situation will continue in 2017 as well. The annual economic report expects an increase in the price-adjusted gross domestic product of 1.4% for the current year, and the IFO Institute expects an increase of 1.5%. The slight decline in growth is largely attributable to a smaller number of working days compared to the previous year. Incomes that continue to rise with labor market development provide further favorable conditions for private households. They will show an above average expansion in their consumption expenditures compared to the recent past and continue to invest in residential buildings.

Budget surplus
€23.7 billion in Germany

The national budget recorded its highest surplus since reunification in 2016: it was 0.6% in relation to the nominal gross domestic product, or €23.7 billion in absolute terms. Thus, the state achieved a surplus for the third consecutive year. The good position of the public budget allows the state to spend more on consumption and investment.

In 2017, German companies will invest more in equipment and machinery in order to meet the slowly growing demand from abroad. In view of the slightly above-average utilization of capacity in industry, as well as replacement investments, expansion investments should also gain in importance.

World trade, on the other hand, remains subdued and could be stunted even more by the protectionist currents in the USA, but also by election results in the Netherlands and France. The risks, especially from the external environment, remain significant. This dampens the prospects for exports and thus the propensity of companies to invest in equipment and buildings. All in all, however, a break in the steady upward is not foreseeable.

General conditions in the “Technical Textiles Industry”

At this year’s International Techtextil and Texprocess 2017 press conference, Manfred Junkert, deputy chief executive of the German textile and clothing industry, said: “German companies are world market leaders in technical textiles. For years, sales have been increasing steadily - evidence of an innovative industry with excellent products. The digitization of textile products and processes will also trigger an innovation thrust in many other industries.” Technical textiles are conquering more and more new applications and replacing conventional materials. Examples are reinforcing materials made of textile in concrete construction, artificial arteries in medical technology, or textile composites in vehicle construction or in sport. According to the professional association IVGT, the Indutech and Clothtech segments are particularly important for the industry, so the already existing product diversity will be augmented by new innovative textiles in the coming years. Lightweight structural design has now become an obligation in the field of mobile technology. Germany's technology leadership in the field of electromobility and the associated demand for light load structures will lead to an increased demand for hybrid and sandwich materials, a very interesting market for all surface manufacturers (fabrics, scrims, knitted fabrics). The increase in geotextiles and architectural textiles is being fueled by the increasing need for renovation in road construction. If only the two last-mentioned fields are combined, they already reach second place within the fields of application of technical textiles. Technology leadership is therefore still a core success factor. Here, the German industry is regarded as a technological world market leader. According to an older Commerzbank study, we should focus on the high-quality and demanding product areas and, as far as possible, avoid competition with Asian mass suppliers and low-value products. The German industry is predominantly the result of a successful structural change away from producers of traditional textiles to high-tech and specialist manufacturers of high-quality textile products.

The world market for conventional technical textiles is expected to grow from US$130 billion to US$160 billion by 2018. The most important customer is the vehicle construction sector. But sectors such as construction and geotextiles, as well as niches such as eco-textiles, are also gaining in importance. For nonwovens, sales are currently expected to rise from US$33 billion to over US$42 billion by 2017. The largest customer segment is the hygiene sector. Composites are expected to see higher growth rates, particularly as a result of strong demand in the automotive industry, wind power and aviation sectors. Currently, according to a Commerzbank study, the world market volume of textile-reinforced fiber composite materials is estimated at just under US$100 billion. In total, the global market volume of technical textiles is currently more than US$250 billion. The Asian market, with China out in front, provides the best prospects as customers. But other emerging markets are becoming increasingly more important for German manufacturers.

Technical textiles
Germany Global Market Leader

According to the Confederation of the German Textile and Fashion Industry, the German industry, with over 600 companies with more than 20 employees and a turnover of €13 billion, is the world market leader and, therefore, the largest exporter of these products. Technical textiles already account for more than 50% of total German textile production. Due to very extensive foreign production and other statistical allocation problems, sector figures on the turnover of the German manufacturers of technical textiles are very difficult to verify.

General conditions in the automotive and automotive supply industry

According to the VDA, the passenger car market in 2016 achieved its highest level since the beginning of the decade, with some 3.4 million new registrations, and domestic employment in the automotive industry even rose to a 25-year high (815,000 employees). This equates to an increase of almost 10% compared to the previous year and is evidence of the sustained growth of the German passenger car market. According to VDA, the start to the current year also gives reason for confidence: car production in January rose compared to the previous month by 11% to 462,900 cars. The VDA expects sales of 83.6 million new cars worldwide in 2017, which would represent a 2% increase.

After the US, the UK is the second most important export market for the German automotive industry. Germany appears to be sensitive to the consequences of Brexit. Although an increase in prices in the premium segment should be possible without problems, a recession would affect the export market in 2017.

In 2016, the USA and China reached new highs, while Western Europe also recorded strong growth in the latest figures published by the European Automobile Manufacturers Association (ACEA), reaching the highest level in six years. In 2016, the West European market achieved growth of more than 6%, with more than 14 million newly registered passenger cars. However, double-digit declines were recorded in Russia (-15.1%) and Brazil (-22.6%), while new registrations remained weak in Japan as well at -4.2%.

New car registrations **up 6.8 per cent in the EU**

The European car market therefore grew strongly last year and exceeded the expectations of the car manufacturers for the year – the ACEA forecast expected an increase of 5%. The result is an increase in new registrations in the EU of 6.8% to 14.64 million passenger cars. This means that the figures are almost at the same level as in 2008, but are still well below the pre-crisis year of 2007, when 15.9 million cars were newly registered.

At the beginning of 2017, passenger car sales in Europe continued to grow strongly, according to the ACEA. In January, 1.17 million vehicles were registered in the European Union, 10.2% more than a year ago. Business was buzzing in the big markets: Spain, France, Germany and Italy had double-digit increases in car sales. In the UK, however, the number of new registrations rose by only 2.9%.

The US market for light vehicles (passenger cars and light trucks) also grew in 2016, reaching another record level of 17.5 million new light vehicle registrations. The CAR Institute is also predicting a further increase to 17.9 million registrations for 2017, which would be an absolute record.

The Chinese passenger car market again experienced surprising growth: the sales volume rose by 15% compared to the previous year. The VDA estimates that in 2017 there will still be a further increase in passenger cars of 5% to 24.2 million . The Japanese market has been zigzagging between yen strength and government incentives in recent years. The market is still depressed by the VAT increase in 2015, which caused a drop of 14%. In 2016, the market stabilized slightly at a low level and, for 2017, a moderate increase of 5% is expected.

In the year under review, there is only bad news from the BRIC countries Russia and Brazil. The Russian market is still on a downward slide due to the high inflation and ever-increasing economic activities: New car sales decreased to 1.4 million sales (-15.1%) in 2016 as a whole and were therefore only slightly above the crisis level of 2009. New car registrations in Brazil, too, fell dramatically. The Brazilian economy is in a deep recession. This resulted in the past year in a further decline in the number of new registrations: from January to September 2016, only 1.2 million new cars were registered (previous year: 2.5 million), equating to a decline of 22.6%.

FINANCIAL PERFORMANCE

in € thousands	2016	%	2015	%	Change
Revenue	385,782	100.1	374,492	98.8	11,290
Change in inventories and own work capitalized	-331	-0.1	4,565	1.2	-4,896
Total performance	**385,451**	**100.0**	**379,057**	**100.0**	**6,394**
Other operating income	11,951	3.1	11,649	3.1	302
Cost of materials	-218,410	-56.7	-219,645	-57.9	1,235
Personnel expenses	-90,125	-23.4	-86,614	-22.8	-3,511
Depreciation and amortization of intangible assets, property, plant and equipment and investment property	-21,221	-5.5	-22,611	-6.0	1,390
Other operating expenses	-49,659	-12.9	-49,800	-13.1	141
Operating result	**17,987**	**4.7**	**12,035**	**3.2**	**5,952**
Income from investments	-	-	-23	0.0	23
Interest result	-4,717	-1.2	-5,451	-1.4	734
Other financial result	7,248	1.9	4,219	1.1	3,029
Financial result	**2,531**	**0.7**	**-1,255**	**-0.3**	**3,786**
Earnings before income taxes	**20,518**	**5.3**	**10,779**	**2.8**	**9,739**
Income taxes	-8,182	-2.1	-9,331	-2.5	1,149
Result from discontinued operations	416	0.0	74	0.0	342
Income taxes discontinued operations	-	-	-	-	-
Group annual result before minority interests	**12,751**	**3.3**	**1,523**	**0.4**	**11,228**

5

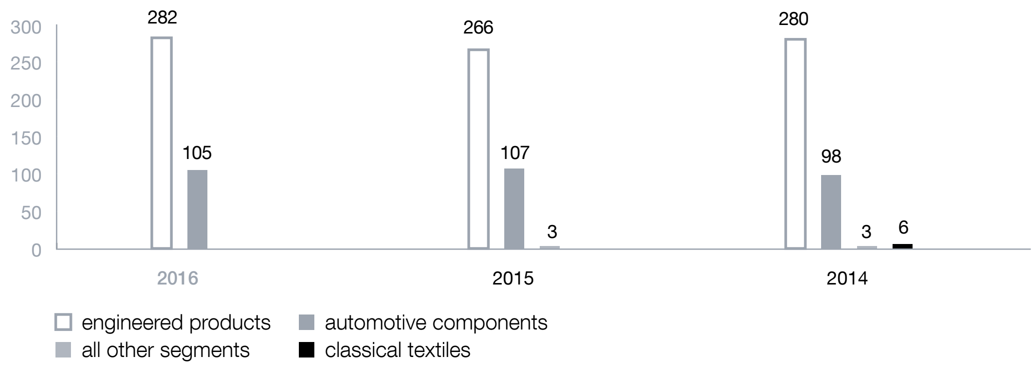
Consolidated revenue rose in 2016 by €11.3 million to €385.8 million (previous year: €374.5 million) in the comparable consolidated group. Exchange rate effects affected sales revenue in the 2016 financial year negatively (previous year: positively) by €1.5 million (previous year: €5.4 million).

The inventory reduction (previous year: increase) amounted to €1.6 million (previous year: €3.5 million). At €1.2 million (previous year: €1.1 million), own work capitalized was slightly higher than in the previous year. Total operating performance was €385.5 million (previous year: €379.1 million).

Other operating income also increased only slightly to €12.0 million (previous year: €11.6 million). In particular, the income from the sale of assets was higher than the previous year at €1.5 million (previous year: €0.7 million) as a result of the sale of a property at the former production site in Karlsbad.

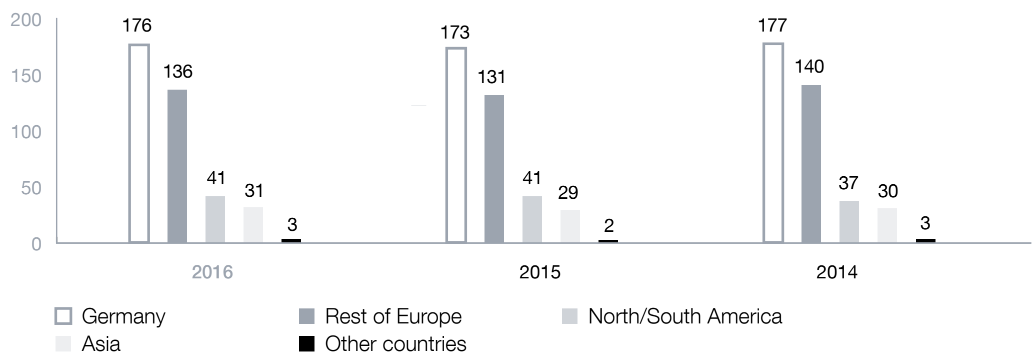
SALES TREND BY SEGMENT
in € millions

3



SALES TREND BY REGION
in € millions

4



The materials ratio again fell pleasingly to 56.7% (previous year: 57.9%). The cost of materials is €218.4 million (previous year: €219.6 million), which is attributable to a decrease in the cost of purchased services of €1.4 million.

Compared to the previous year, the personnel ratio rose slightly to 23.4% (previous year: 22.8%). Personnel expenses rose in absolute terms by €3.5 million to €90.1 million (previous year: €86.6 million).

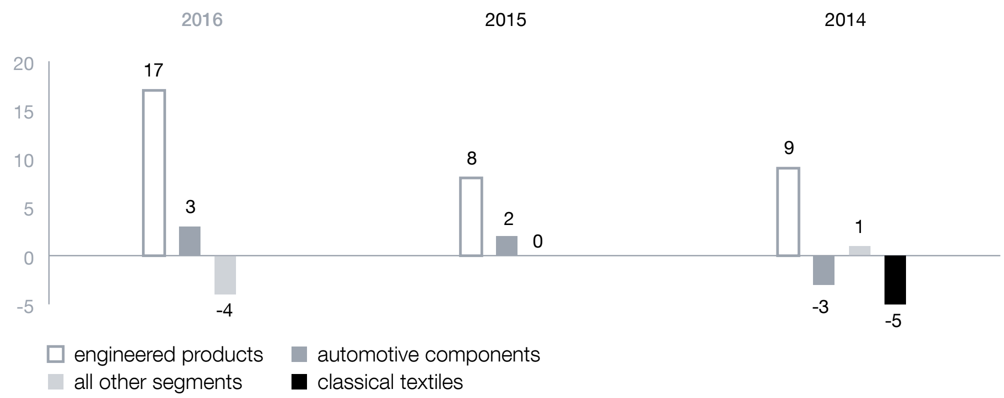
At €21.2 million (previous year: €22.6 million), depreciation and amortization was €1.4 million less than in the previous year. Depreciation on the lower net disposal values of €0.7 million (previous year: €0.9 million) was also required in the 2016 financial year. This included land in Kalefeld, Flieden and technical plants and machinery at our location in Turkey. In terms of total operating performance, the ratio is 5.5% (previous year: 6.0%). Investments in property, plant and equipment amounted to €24.7 million (previous year: €15.5 million), well above depreciation of €19.8 million (previous year: €20.6 million).

At €49.7 million (previous year: €49.8 million), other operating expenses were roughly the same as in the previous year. In relation to the total operating performance, this equates to an improvement of 0.2 percentage points to 12.9% (previous year: 13.1%).

The operating result of €18.0 million (previous year: €12.0 million) rose by 50% compared to the previous year due to one-off effects. The share in operating result has improved to 4.7% (previous year: 3.2%).

SEGMENT RESULT (BEFORE CONSOLIDATION)
in € millions

5



Net interest income improved to €-4.7 million (previous year: €-5.5 million). In the previous year, interest on tax claims of €1.2 million was included in the company audit for the years 2003 to 2007. The share in total performance is -1.2% (previous year: -1.4%).

We were again able to significantly improve other financial income by €3.0 million to €7.2 million (previous year: €4.2 million). In the previous year, depreciation of financial receivables in the amount of €4.4 million had a negative impact on the result. The sale of 60,000 shares of Allianz SE and all 210,834 shares of Deutsche Bank AG resulted in income of €6.8 million. However, depreciation of €2.2 million on the shares of Deutsche Bank AG was necessary as at the half year-end. Taking into account the dividends received of €1.3 million – (previous year: €2.1 million), the securities portfolio thus generated income of €5.9 million – (previous year: €9.1 million). The balance of exchange rate effects from financing activities improved to €-0.3 million (previous year: €-1.6 million).

As a result, the financial result is very positive at €2.5 million (previous year: €-1.3 million).

Earnings before taxes **almost doubled**

At €20.5 million (previous year: €10.8 million), our earnings before income taxes almost doubled, resulting from €6.0 million higher operating profit compared to the previous year, as well as the €3.8 million better financial result.

Income tax expense improved slightly to €8.2 million (previous year: €9.3 million). Actual income tax expenses rose to €5.9 million (previous year: €5.1 million). The change in deferred taxes on temporary valuation differences and tax loss carry-forwards resulted in a negative effect of €2.3 million (previous year: €4.3 million).

The result of the discontinued operations relates to the decline in liability. We have agreed with the buyer of the MVS Group that we will be liable for any risks arising from warranties and price tests for sales up to the date of sale of the shares.

The consolidated profit for the year amounted to €12.8 million (previous year: €1.5 million).

FINANCIAL STATUS

in € thousands	12/31/2016	%	12/31/2015	%	Change
Assets					
Non-current assets	155,351	49.3	154,967	47.4	384
Current assets	159,683	50.7	172,058	52.6	-12,375
	315,034	**100.0**	**327,025**	**100.0**	**-11,991**
Equity and liabilities					
Equity and reserves	147,293	46.8	151,485	46.3	-4,192
Non-current liabilities	49,269	15.6	56,961	17.4	-7,693
Current liabilities	118,473	37.6	118,579	36.3	-106
	315,034	**100.0**	**327,025**	**100.0**	**-11,991**

6

For the presentation of the assets position, the assets held for sale were not reclassified.

The balance sheet total is €315.0 million (previous year: €327.0 million). The increase in non-current assets by €0.4 million to €155.4 million (previous year: €155.0 million) is seen alongside the decline in current assets by €12.4 million to €159.7 million (previous year: €172.1 million).

Intangible assets declined by €0.2 million to €1.7 million (previous year: €1.9 million).

Property, plant and equipment rose to €136.9 million (previous year: €133.6 million). At €24.7 million (previous year: €15.5 million), investments were much higher than in the previous year as well as the depreciation of €19.8 million (previous year: €20.6 million). The portfolio of investment properties also decreased to €6.8 million (previous year: €9.4 million) due to the sale of the property in Karlovy Vary and the sale of the last property in South Africa.

Other financial assets remained unchanged at €1.2 million (previous year: €1.2 million).

Deferred tax assets have declined from the previous year to €6.7 million (previous year: €8.5 million). Temporary valuation differences remain almost unchanged at €5.8 million (previous year €5.9 million). The tax loss carryforwards decreased by €1.6 million to €1.0 million (previous year: €2.6 million).

Current assets declined by €12.4 million to €159.7 million (previous year: €172.1 million).

We also reduced inventories to €72.5 million (previous year: €74.6 million).

Trade receivables increased as at the balance sheet date to €56.7 million (previous year: €52.8 million).

The reimbursement claims against the Tax Office due to excessive payment of income taxes decreased by €0.7 million to €1.6 million (previous year: €2.3 million).

The value of our securities portfolio is €18.6 million (previous year: €34.2 million). The decrease includes the book value of €14.6 million from the sale of 60,000 Allianz SE shares and the total of 210,834 Deutsche Bank AG shares. In addition, there is the valuation as at the balance sheet date of the remaining 120,000 shares in Allianz SE at €1.0 million.

Cash and cash equivalents increased from €2.7 million to €4.1 million.

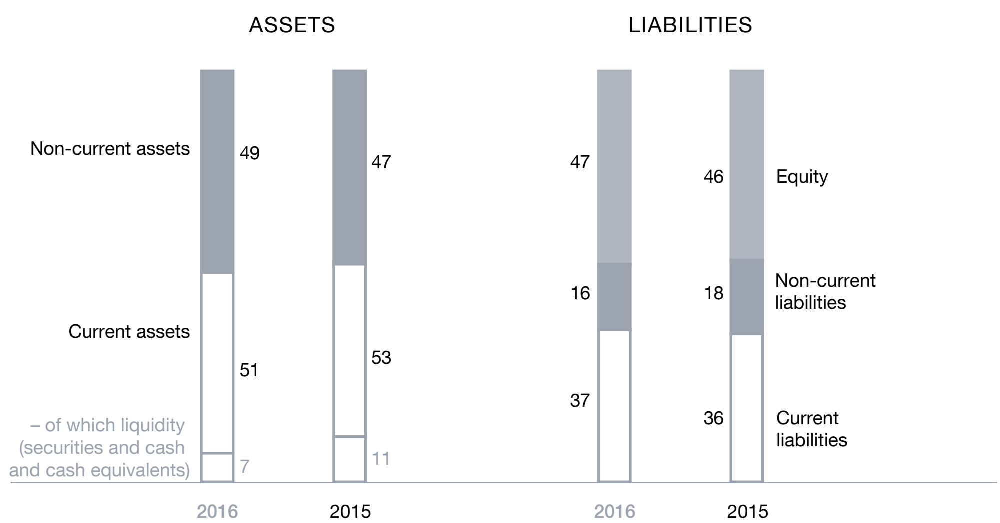
Equity ratio
46.8 per cent

Equity decreased by €4.2 million to €147.3 million (previous year: €151.5 million). The decline is mainly due to the dividend payout of €6.6 million (previous year: €66.2 million) for the 2015 financial year and the decrease in the provision for available-for-sale financial assets by €6.9 million. However, the equity ratio remained almost unchanged as at the balance sheet date at 46.8% (previous year: 46.3%) due to the decline in the balance sheet total.

Non-current liabilities declined from €57.0 million to €49.3 million. The further decline in the interest rate for pension obligations resulted in a €1.5 million increase in pension provisions to €21.0 million (previous year: €19.5 million). At €27.0 million (previous year: €36.4 million), non-current financial liabilities declined significantly. Non-current repayment loans of €8.7 million were reclassified as current financial liabilities due to their maturity. Deferred tax liabilities were virtually unchanged at €0.7 million (previous year: €0.8 million). Other non-current liabilities increased to €0.6 million (previous year: €0.3 million).

At €118.5 million (previous year: €118.6 million), current liabilities remained virtually unchanged. While other provisions decreased by €2.1 million to €25.0 million (previous year €27.1 million), current financial liabilities rose slightly by €1.0 million to €60.9 million (previous year: €59.9 million). Trade accounts payable rose from €18.1 million to €21.9 million as at the reporting date. Income tax liabilities decreased to €2.5 million (previous year: €3.6 million). Other liabilities decreased to €8.1 million (previous year: €9.8 million).

BALANCE SHEET RATIOS
in %



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Interest rates on liabilities to banks were between 1.37% and 13.6% (previous year: 1.38% and 9.75%). Of the liabilities to banks, €10.7 million (previous year: €19.5 million) was valued in foreign currencies.

Significant off-balance sheet commitments in the form of other financial obligations amounted to €5.4 million (previous year: €5.9 million). Of this, the commitments for property, plant and equipment amount to €3.6 million (previous year: €4.3 million) and obligations from rental and leasing contracts €1.8 million (previous year: €1.5 million).

FINANCIAL POSITION

in € thousands	2016	2015
Earnings before interest and income taxes	**25,651**	**16,305**
Depreciation and amortization of fixed assets (offset against write-ups)	21,221	22,612
Change in provisions	-2,753	-2,591
Other non-cash expenses and income	-6,482	-6,347
Results from the disposal of fixed assets and discontinued operations	-227	-49
Cash flow from operating activities before changes in assets and liabilities	**37,410**	**29,931**
Changes in inventories, receivables and other assets not attributable to investment and financing activities	-530	-3,086
Changes in payables and other liabilities which are not attributable to investing and financing activities	2,528	471
Cash flow from operating activities before interest and income taxes	**39,408**	**27,316**
Interest paid and received	-4,321	-3,937
Income taxes paid and received	-5,958	-988
Cash flow from operating activities	**29,129**	**22,392**
Proceeds from disposals of property, plant and equipment (including investment property)	1,661	1,093
Investments in property, plant and equipment (including investment property)	-24,846	-15,746
Investments in intangible assets	-405	-510
Proceeds from the disposal of financial assets	-	48
Investments in financial assets	-2,022	-
Cash inflow from the sale of securities	13,274	14,077
Cash flow from investing activities	**-12,338**	**-1,038**
Dividend paid to shareholders	-6,624	-66,244
Proceeds from the acquisition of financial liabilities	4,994	61,334
Disbursements for the repayment of financial liabilities	-11,394	-27,587
Proceeds from repayments of financial receivables	245	1,099
Disbursements by granting loans	-297	-5,197
Cash flow from financing activities	**-13,076**	**-36,595**
Net change in cash and cash equivalents	3,715	-15,242
Effect of changes in foreign exchange rates, consolidation group and valuation-related changes in cash and cash equivalents	-2,315	1,502
Cash and cash equivalents at the beginning of the period	2,738	16,478
Cash and cash equivalents at the end of the period	**4,138**	**2,738**

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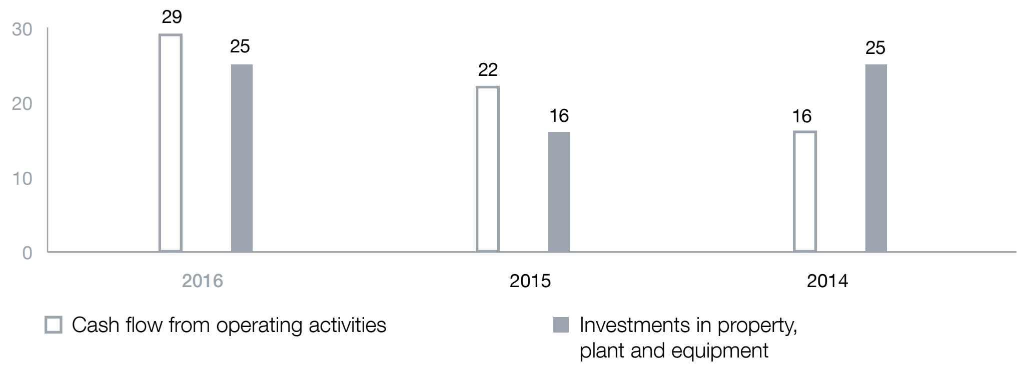
SALES DEVELOPMENT BY REGION
in € millions



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Cash flow up
30 per cent

At €29.1 million (previous year: €22.4 million), cash flow from operating activities was approximately 30% higher than in the previous year. In addition to the higher result, the improvement also resulted from the release of funds (previous year: commitment of funds) in net working capital of €2.0 million (previous year: €2.6 million). The interest and income tax payments led to a net outflow of funds of €10.3 million (previous year: €4.9 million). The increase in income tax payments to €6.0 million (previous year: €1.0 million) results from additional tax demands due to the company audit for the years 2003 to 2007.

Essentially, the higher investments in property, plant and equipment (including investment property) of €24.8 million (previous year: €15.7 million) and investments in financial assets of €2.0 million (previous year: €0.0 million) resulted in the outflow of funds from investment activities of €12.3 million (previous year: €1.0 million). The proceeds from the sale of shares amounted to €13.3 million (previous year: €14.1 million).

Cash flow from financing activities amounted to €-13.1 million (previous year: €-36.6 million) and is therefore much better than in the previous year. The dividend payment to shareholders resulted in an outflow of €6.6 million (previous year: €66.2 million). On balance, the change in financial liabilities resulted in an outflow of funds of €6.4 million (previous year: €33.7 million).

On the balance sheet date, cash and cash equivalents totaled €4.1 million (previous year: €2.7 million).

Credit lines of €53.8 million (previous year: €42.8 million) were not utilized as at the balance sheet date.

DISCLOSURES IN ACCORDANCE WITH § 315 PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE (HGB)

Statutory provisions and provisions of the Articles of Association on the appointment and removal of the Management Board and on the amendment of the Articles of Association

The appointment and dismissal of the Management Board takes place in accordance with the statutory provisions of the German Stock Corporation Act (AktG). The amendment of the Articles of Association shall be made in accordance with statutory provisions, §§ 179, 119 AktG and § 12 (4) of the Articles of Association of KAP-Beteiligungs-AG. Thereafter, the Supervisory Board is authorized to make amendments to the Articles of Association which only affect the wording.”

The Annual General Meeting on 26 August 2011 authorized the Management Board, with the approval of the Supervisory Board, to acquire treasury shares of up to 10% or – if this value is lower – the share capital existing at the time the authorization is exercised. The shares acquired together with other treasury shares held by the company, or attributable to it in accordance with §§ 71a et seq. AktG, may at no time exceed 10% of the share capital. The authorization may not be used for the purpose of trading in the shares.

The acquisition may be carried out at the option of the Management Board, with the approval of the Supervisory Board, via the stock market or by means of a public purchase offer addressed to all shareholders. The acquisition value of the shares (excluding acquisition costs) may not be more than 10% above, and not more than 20% below, the mean value of the share prices on the Frankfurt Stock Exchange on the last three trading days before the obligation to purchase. In the case of a public purchase offer, it may not be above the mean value of the share prices on the Frankfurt Stock Exchange on the last three trading days before the date of publication of the offer by more than 15% and not be more than 10% below. If, in the case of a public purchase offer, the volume of the offered shares exceeds the intended repurchase volume, the acceptance has to be in proportion to the offered shares. A preferential consideration of small numbers of shares up to 50 of the offered KAP shares per shareholder can also be foreseen. The public purchase offer may provide further conditions.

The disclosures in accordance with § 315 (4) no. 1 and 3 of the German Civil Code have been included in the consolidated financial statements.

RESEARCH AND DEVELOPMENT

Without the willingness to look for innovative solutions, success for our investment companies is not possible. It is one of the most important components of their corporate strategy. Otherwise, it would be arbitrary and therefore replaceable. Although the development of completely new products for existing and new applications is rarely possible, our companies managed to do this in the past year with great success. Nevertheless, the focus is mostly on the improvement of existing products! This is mainly about quality improvement, to extend the service life or to optimize other specific product characteristics.

We place great importance on the fact that, if possible, every development project is carried out together with our customers, so that their wishes can be taken into account at an early stage of development. As a result we avoid costly misallocations.

In the past financial year, we again managed to achieve some promising successes in our development projects.

In the past financial year, our subsidiary MEHLER ENGINEERED PRODUCTS (MEP) set itself the task, among other things of finding a solution to reduce the weight and installation volume in the various rubber applications (air springs, tires, etc.) without sacrificing the desired strength. Anyone who wants to be successful here must work with ever thinner grades (or titers) of the textile reinforcement material. MEP experiments here with new materials or better material combinations. One of these so-called hybrid twisting combinations is, for example, made out of polyamide and aramid. A lot of basic work will still be necessary in the future to achieve an optimum between light and compact on the one hand and strong on the other.

The company OLBO & MEHLER Tex manages its development activities from the production site in Portugal. In 2016 the focus was again on the development and launch of a high-strength textile fabric for use in the construction industry. The first field tests are very promising. The benefit of using these fabrics in the construction sector is obvious: the highest fire protection classes are achieved - and at the same time a minimal increase in the costs for the builder.

CaPlast is our specialist for high-quality coating of nonwovens, films, fabrics or even paper. The newly-developed generation of roofing membranes described in the last year, which reduces the risk of water penetration in the implementation of fasteners such as dowels, screws and nails, was launched very successfully onto the market. In the year under review, the development focus was on two very different projects. On the one hand, CaPlast has developed with “Blackout” a film which is almost 100% opaque and is used in the agricultural sector. With the aid of this film it is possible to achieve significant increase in growth, especially in the development of nightshade plants by simulating day-night rhythms. On the other hand, the company focused on the development of an “intelligent” under-roof rail, which contains a steam brake. This allows maximum moisture to escape through the roof of a house during the summer, while in winter it can close the openings at low temperatures and prevent cold from entering the house. This significantly reduces the risk of mold infestation.

In the reporting year, our subsidiary Elbtal Plastics also developed two new products and successfully launched them onto the market. There is, on the one hand, the new top quality swimming pool with the brand name “Elite”, which has a new and unrivaled resistance to stains. It is also the world’s first swimming pool without phthalate, which is suspected of being carcinogenic. Finally, Elbtal has brought the “Ultimate Border” film to market maturity, which is welded to the water line and, thanks to its special surface finish, prevents the water line of a pool from becoming contaminated with sun creams, for example.

The GM Tec Group consists of companies with highly specialized metal and plastic processors. Here the focus was in particular on the further development of own products. In the year under review, the R&D departments also paid particular attention to the further improvement of performance data for gear wheels with plastic axles. The challenge is to reduce weight and achieve higher running smoothness. As special applications, we see these optimized parts in modern electric motors, for example e-bikes. In addition, the GM Tec-Group is the partner of a development team to develop a new braking system specifically for the requirements of autonomous driving.

The remaining investment companies also conduct research and development on an ongoing basis to expand or specialize the scope of applications of their products. Many are highly complex and difficult to describe, among other things, because these innovations are often not visible in the final product. In addition to the goal of always being an adequate contact for innovative solutions to the established customer base, the focus is also on the ability to serve new sales markets.

In the current financial year, we will be able to present some of the described developments to our customers and modify them so that they are ready for the market.

EMPLOYEES

	12/31/2016	12/31/2015
Germany	1,325	1,350
Europe	1,029	1,010
North America	80	80
Asia	162	156
South Africa	1	1
Total	**2,597**	**2,597**

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As at 31 December 2016, the KAP Group employed 2,597 people (previous year: 2,597). The annual average was 2,616 (previous year: 2,624) people, of which 1,351 (previous year: 1,256) were in Germany and 1,265 (previous year: 1,368) were abroad. Personnel expenses in the Group in 2016 amounted to €90.1 million (previous year: €86.6 million).

The merger of the Synteen subsidiary with OLBO & MEHLER Tex (OMT) led to a reduction in the number of employees in both Germany and abroad. In addition, we have decided to adjust the capacity at our German location in Bebusch, resulting in 33 jobs being cut. All these measures have been implemented in a socially acceptable manner.

Training and continuing education

We place value on an innovative corporate culture and a work environment built on mutual respect and fairness. The attractiveness of the companies of the KAP Group was also reflected in the high level of loyalty of the employees to their employer last year. Internal development opportunities, the promotion of training, as well as targeted development of the next generation of managers contribute to this pleasing loyalty of our workforce in the individual Group companies. For instance, we offer our employees in IT-related functions training on an ongoing basis, both in standard applications as well as in specialist software. In order to ensure that these training courses are highly effective, as part of the ISO 9001 certification they are subject to a transparent evaluation by employees. Some subsidiaries also pay part of the costs for language courses. At our location in Fulda, 25 employees have made use of this offer. We launched a special project with employees at our subsidiary OMT in Portugal last year: a new CIP (Continuous Improvement Program) was implemented with the support of the Kaizen Institute. All the employees were trained and integrated into the process. On the basis of our experience here, we have entrusted two of them with the task of continuing the CIP process. Their task is to pass on the CIP know-how in future without the assistance of external consultants. On the basis of this positive experience, we will also begin a CIP project in our newly-integrated location of OMY Hlinsko in the Czech Republic in order to achieve continuous improvements.

In order to attract new employees, we offer in particular at the German locations training courses in commercial, technical and process engineering trades, as well as IT and electrical training courses. Our foreign employees benefit from the high level of training of their German colleagues who are constantly sent to our foreign locations in order to pass on their knowledge to the local employees. For example, in the year under review, German experts from MEP were constantly training employees in China so that they can meet MEP's global quality standards. In order to remain attractive as an employer, we support our workforce through in-company training programs and incentives, such as the financing of training for master craftsmen and engineers to ensure lifelong learning so that they maintain their skills and performance. The next generation of managers are recruited largely from graduates of “Berufsakademien” (Vocational Academies), as well as from graduates of universities. Our long-standing close cooperation with schools and universities across a wide range of development projects is part of our strategy for retaining qualified young talents. For example, we have been cooperating for a long time with the Fulda University of Applied Sciences in the field of electrical engineering, and offer integrated degree programs. The supervision of student research projects, dissertations and master thesis topics offers our executives a welcome opportunity to meet potential junior executives.

Diversity

The diversity of our employees and executives is important to us, and, indeed, essential for the success of our company. We see the promotion of diversity as a cornerstone of our management model. We experience it as an enrichment that every employee can bring his or her own special qualities and strengths into the company, and we try to promote individual potential. In the individual companies of the Group, we place great value on a climate of diversity and respect for the individual within the corporate culture. We appoint employees from diverse cultures and countries of origin and with different religious affiliations. In Germany alone we have employees from 28 different nations in our subsidiaries. We find this heterogeneity enriching.

Women are poorly represented in the technical and scientific fields that are important to us. The proportion of female employees in our company varies widely between 10% and 50% of the workforce, depending on the location of the respective company. This affects the equality between men and women. Even in regions where women account for half of the workforce, for example, in Germany or at various Eastern European locations, women are clearly underrepresented in management positions. We are trying to change this but unfortunately our success has so far been negligible. We will, however continue to pay particular attention to the appointment, retention and promotion of women in the future. We have already implemented the requirements of the Act on the Equal Participation of Women and Men in the private sector at the Group headquarters.

Demographic development

Demographic change is a challenge for the companies of the KAP Group, and not only in Germany. By analyzing the age structures of the Group companies, we try to make timely decisions about our portfolio of training programs, qualifications, retraining and recruitment. Occupational health assessments of production processes are also used to adapt the workplaces to the changing age structures of the workforce. This applies particularly to companies in the **engineered products** environment, which partly have an aging workforce.

Health care and occupational health and safety

The Group-wide occupational health care of our employees is standard. In cooperation with occupational physicians, we analyze disease patterns specifically to identify what preventive action is needed in order to reduce absenteeism. For example, in some subsidiaries we screen diseases that occur as a result of serious strain from lifting heavy loads. We also focus on the risk of mental stress and overload in the workplace. Our health management provides services in the fields of prevention, therapy and rehabilitation. To ensure the safety of work and equipment, we have developed a new fire protection concept for our largest site in Fulda. So far there have been no major accidents. This should remain the case as far as possible.

REMUNERATION OF THE MANAGEMENT BOARD

Responsibility

The Supervisory Board is responsible for setting the structure and level of remuneration of the members of the Management Board.

Goals

In view of the competition for highly qualified executives, the remuneration model for the members of the Management Board should be attractive. In order to provide an incentive to achieve success, the variable part of the remuneration should be strongly linked to the economic success of the KAP Group. Furthermore, the remuneration structure for the Management Board should bear similarities to the remuneration system for the employees and managers.

Remuneration elements

The remuneration of the Management Board should include both fixed and variable income elements. The factors that make up the variable remuneration should enable a competitive income, with a very high bonus for the Management Board in financial years in which the KAP Group is successful. The measured variable used to determine the variable remuneration element is the respective operating result.

The remuneration system includes neither share options, nor appreciation rights that function in the same way as share options, nor any other share-based remuneration components, because such remuneration instruments are not considered to be sufficiently predictable and are therefore traditionally not used by us. The Supervisory Board reviews the remuneration system in respect of the structure and level of remuneration of the Management Board at regular intervals.

INDIVIDUALIZED MANAGEMENT BOARD REMUNERATION FOR THE FINANCIAL YEAR

in € thousands	Fixed Income	Variable Income	2016	Fixed Income	Variable Income	2015
Dr. Stefan Geyler	307	100	407	307	100	407
Fried Möller	270	0	270	360	-	360
André Wehrhahn	77	55	132	-	-	-
Total	**654**	**155**	**809**	**667**	**100**	**767**

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REMUNERATION OF THE SUPERVISORY BOARD

Remuneration system

The current remuneration system is laid down in § 13 of the Articles of Association. In addition to the reimbursement of expenses, the Supervisory Board receives a fixed remuneration.

Supervisory Board remuneration in the 2016 financial year

The Supervisory Board consists of three members. In the 2016 financial year, each member of the Supervisory Board received €5,000 (previous year: €5,000) and the Chairman of the Supervisory Board €7,500 (previous year: €7,500).

Consultancy and mediation services as well as other personal services were again not provided by members of the Supervisory Board in 2016. Accordingly, no additional remuneration was paid. This is in line with the company policy and practice that no contractual relationships are entered into with members of the Supervisory Board with which they are obliged to provide personal services, in particular consultancy and mediation services, in return for remuneration.

RISK MANAGEMENT

Risk management system

The business areas of the KAP Group are exposed to a variety of risks that are an inevitable result of their business activities. The challenge lies in using the opportunities that arise and limiting the risks. Risks that threaten the company's existence, in particular, must be systematically identified, analyzed, assessed, recorded and communicated in good time in order to manage them. We use a variety of instruments to do this. Our risk management system forms a central part of this process. In addition to the early recognition of risks that threaten our existence, all risks that could have a significant effect on the asset, financial and earnings position are also recorded.

The formal reporting documentation is produced in accordance with uniformly defined standards – separated by different risk groups – at the end of each year by the responsible risk manager of the respective reporting unit. The information is then assessed and classified at KAP level. Organizationally, risk management is reported directly to the Management Board of the KAP Group. In addition to identifying and reporting risk, the risk managers are also responsible for introducing and implementing measures to avoid and/or limit risks.

Risk assessment
> €1 million

In addition to that, the KAP Group uses management reporting, consisting of monthly reports, forecast and planning, including investment planning, to monitor and manage risks. These instruments are supplemented by the measures that each group of companies individually uses for operational management. In this way, risks are assessed and aggregated on two levels. An immediate obligation to report to the Management Board exists for all cases where risks are identified that have an impact of more than € 1.0 million on the annual result.

Political, legal, regulatory framework

The political, legal and regulatory risks relate to the risks in the markets in which we are currently active. This applies both to our production sites and to the markets. They also arise, in particular, from the political and economic development of these countries and regions. In addition, there are competition risks with regard to the specific sales markets relevant to us, such as automotive or construction.

For our foreign production sites located in EU countries, we continue to assume stable political development and also consider the legal risks to be acceptable. However, we still include these risks, especially for our non-EU locations in China, India, the USA and Belarus, in our monitoring in order to be able to react on short notice.

Strategic risks

Corporate strategy risks lie mainly in the misjudging of the future development of the markets or business of the Group companies. In order to minimize possible corporate strategy risks, we rely on comprehensive instruments for the market analysis of the respective sector.

The business purpose of an investment company is not only to develop existing holdings, but also to acquire companies. Herein lies the possibility that hidden risks or misjudgments can affect the economic success of a new investment. We counter this risk with a comprehensive examination of the legal and economic conditions, as well as the market environment of possible takeover candidates by our specialists. We also include, as far as possible, guarantees and exemptions from liability in our contracts.

We counter the possible risks of misjudgments in the strategic positioning of our Group companies with intensive market and competition monitoring. In addition, there are regular strategic discussions with the managing directors of the subsidiaries. All subsidiaries also regularly report on their current business development and their individual risk assessment. We also subject all strategic investments in new product areas to a critical market test with regard to future sales and earnings potential.

Sales and marketing

Due to our presence in the most important sales markets worldwide, we are able to diversify our sales risk. Our main focus is in Europe, where the CEE economic area has still not fully recovered from the effects of the financial and economic crisis. In order to avoid dependence on individual key accounts of our subsidiaries, we have been expanding our customer base through increased sales and development activities for several years.

Corporate governance

Risks arising from the management of our Group companies are the result of the decentralized organizational structure of the KAP-Beteiligungs-AG. On the one hand, we demand and promote independent entrepreneurial action. On the other hand, the Management Board and the managing directors periodically agree on the objectives and framework conditions for their actions. A uniform controlling system, implemented on both the holding and the subsidiary level, is fundamental to this. This system allows management to identify undesirable trends at any time, and the Management Board is in a position question them.

In addition, the Management Board has agreed on a uniform set of rules of procedure, which regulates all the essential rights and obligations, with all the managers of the subsidiaries.

COMPANY SPECIFIC RISKS

Materials management

In the **engineered products** and **automotive components** segments we often work very closely together with our customers. Performance parameters are defined precisely in development, and our task is to keep them at all times. To ensure this, we subject our products to a strict quality inspection before they are delivered to the customer.

We also continually invest in our production facilities to keep them up to date. In this way, we counteract delays in delivery due to possible machine downtimes. The R&D capacities of our subsidiaries are always kept up to date with the latest technology so that we not only meet the specific requirements of our customers but can also proactively develop additional innovative solutions for their products.

As a manufacturing company, we also depend to a considerable extent on our suppliers. Quality and manufacturing standards required by us, in particular, have to be monitored. We counteract the resulting procurement risks with a strict quality control system for all raw materials that we use in our factories. In addition, we source our raw materials from a wide range of suppliers, so that we can immediately switch to other suppliers if defects occur.

Price fluctuations in commodities, also due to political and economic developments, are uncertain and can lead to high volatility in the corresponding markets. We counter these commodity risks by varying contract terms, and corresponding agreements that take price volatilities into account, with our customers.

Personnel

The qualifications, willingness to perform, and the satisfaction of personnel are essential building blocks for the further development of a company. Our future success depends in particular on whether we are able to attract, integrate, and retain suitable employees in the long term.

We are increasingly exposed to competition, in particular with highly-qualified specialists and executives. Demographic developments will intensify this process in the future. We use a variety of instruments, such as the provision of apprenticeships and places at university in integrated degree programs in order to cover the need for suitable staff. We are also in contact with universities to award internships if necessary, as well as to provide topics for dissertations and theses, the latter also with potential junior executives in mind.

IT/Organization

We take the risks of electronic data processing and archiving very seriously. That is why we constantly adapt our central systems to the specific current requirements of our organization. In doing so, we use our own experts and also use external experts on a project-specific basis.

FINANCE AND ACCOUNTING

Risk of default

A default risk would largely arise from trade receivables resulting from operating activities. Our multitude of activities in different markets with numerous customers leads to a broadly diversified portfolio of customer requirements. This is complemented by effective debt management on the part of our respective subsidiaries.

Liquidity and credit risk

Liquidity and credit risks are the result of the short, medium and long-term financing requirements. We address these risks with careful and forward-looking planning of the financing requirements, especially in the case of larger capital expenditures. The monitoring and active management of working capital is a further measure for optimizing financing requirements.

Borrowing is done centrally by the KAP-Beteiligungs-AG. Fixed or variable-interest loans are used, depending on the macroeconomic interest environment.

Cash pool ensures **sufficient liqidity**

The subsidiaries are linked to a cash pool system that ensures sufficient liquidity at all times. However, liability risks may also arise from the recourse to the KAP-Beteiligungs-AG as a cash pool leader.

With regard to external financing sources, we pay attention to diversification and first-class creditworthiness. Opportunities for further diversification through previously unused financing forms are examined as required.

The provision of real collateral is of secondary importance. Its utilization would not have a significant impact on the assets, financial and earnings position. Compliance with the covenants is monitored on an ongoing basis. Failure to comply may result in termination by the banks.

We have liquidity reserves in the form of bank deposits and marketable listed securities, which can be sold at any time to cover short-term refinancing needs.

Our equity ratio of 47% has a positive impact on our creditworthiness and also reduces our financing risk.

Interest rate risk

29% of our financing consists of long-term repayment loans. In the short term, we use various instruments such as money market loans and current accounts. The agreements are essentially based on Euribor as the base rate. This may lead to interest-rate fluctuations, particularly in the short term.

We are confronted with the risk of interest-rate changes when taking out variable-interest loans. Taking into account cost and benefit aspects, we conclude interest-rate swaps if necessary. In the amount of the hedged volume, this leads to the desired transformation from variable to fixed interest.

Depending on the fair value, positive or negative effects on the assets and earnings position may arise during the term of the respective balance sheet date, which will be completely compensated at the maturity date.

Currency and inflation risk

A large part of our business takes place with customers in the US dollar area. It is therefore necessary to enter into certain currency risks, which did not result in any significant currency losses in the past financial year, as we now invoice our customers predominantly in euros. We only do a small degree of currency hedging because the cost of this appears to us to be too expensive compared to the benefit.

Risks from unconditional forward transactions and listed securities

Since we are only option writers for the sales options for securities held by us, we cannot be exposed to any material risks. If the market price changes in the opposite direction, we can only benefit to a limited extent from rising prices.

The market-listed securities held by KAP-Beteiligungs-AG are subject to the risk of market price fluctuations and fluctuations in value. These are due both to the macroeconomic environment and the economic situation of the companies.

The fluctuations also have an impact on the available financial resources in the event of a disposal. Due to the dividend behavior of the issuers, the dividend income is also subject to fluctuations. In the year under review, we sold a large part of our securities portfolio to counter this risk.

By regularly monitoring stock exchange data and corporate and stock exchange news, market-price-relevant events are recorded so that portfolio changes can be made on the basis of sufficient information.

Derivative financial instruments and hedging transactions

The KAP Group also uses derivatives to limit interest-rate and currency risks that arise from operating and financing activities. They also reduce interest-rate and currency risks from hedged items and, in the case of currency risks, risks from planned deliveries and services. To hedge currency risks, currency exchange transactions are used to a limited extent. Interest-rate swaps are used to reduce the impact of interest-rate changes on the financing costs of financial liabilities.

Counterparties for the conclusion of such contracts are exclusively domestic and foreign banks with impeccable credit ratings. As a result, the default risks due to the non-fulfillment of the payment obligations by contract partners are reduced to a minimum.

Within the framework of hedging relationships, forward exchange transactions are used to hedge a hedged item (fair value hedge) or planned transactions (cash flow hedge). Interest-rate swaps are acquired to hedge risks arising from fluctuating cash flows due to variable-interest-rate liabilities (cash flow hedges).

Disclosures in accordance with § 315 Paragraph 2 Number 5 HGB

The main features serve to ensure proper and reliable financial accounting of the KAP Group in the specified timeframe. Measures have been taken and processes defined to meet the requirements for capital-market-oriented companies to prepare consolidated and interim financial statements in accordance with International Financial Reporting Standards and to publish them within specified deadlines.

Across the Group
IFRS as standard

Our accounting guidelines ensure uniform application of International Financial Reporting Standards throughout the Group. If necessary, they are supplemented by accounting instructions in individual cases and kept up to date with current laws. We constantly monitor the activities of the lawmakers and other organizations with a view to amending the accounting rules in order to take appropriate measures before the rules come into force, and to provide timely instruction to the employees concerned. Our finance portal ensures access to all documents and resources required for the accounting process at all times. A qualified contact is assigned at Group level to each subsidiary for additional support.

Through the worldwide use of a uniform consolidation software program, we achieve complete and nearly simultaneous recording of financial statements. Extensive disclosure requirements ensure that all mandatory information is recorded. Inconsistencies are largely excluded by plausibility checks. A comparison is made between the risk management system and reporting data regarding the conformity or plausibility of the data.

A careful and forward-looking schedule regarding reporting and publication obligations, combined with timely communication, contributes organizationally to the orderly course of the process.

LEGAL RISKS

The KAP Group is exposed to multiple legal risks. They result, on the one hand, from the operating business of the subsidiaries with regard to warranty and product liability claims through customer complaints on a contractual or legal basis. Efficient contract and quality management contributes to the reduction of risks, but cannot guarantee 100% protection. On the other hand, they arise from changes in the law, court rulings, and official procedures.

All risks are adequately taken into account by making provisions.

There are no further risks from the uncertain outcome of arbitration and court proceedings, which have a significant impact on the assets, financial and earnings position at either KAP-Beteiligungs-AG or its subsidiaries.

Risks from company and tax audits

The companies of the KAP Group are periodically audited by the financial authorities. Even if the actions of KAP-Beteiligungs-AG and its subsidiaries always take place on the basis of the valid legal situation, different assessments are always possible during a company audit. In such cases, we maintain close contact with the financial authorities and make our position transparent. In individual cases, however, we are not afraid to initiate a judicial examination.

Brand protection/Press and information

We attach great importance to the protection of intellectual property and thus our investment in new products. Wherever possible, we request the protection of our products by applying for a registered design or patent.

Since we develop many applications together with our customers and are in some cases a Tier 2 provider, there is often no need to apply for brand protection measures.

In a decentralized company, there are many different levels of information. In order to provide a uniform picture, there are clearly defined rules for communicating with the press. In particular information that relates to the disclosure duties of listed companies is communicated exclusively by the Management Board.

OPPORTUNITIES REPORT

The global activity of our Group within a dynamic market environment constantly opens up new opportunities, whose systematic recognition and use is an important component of our corporate policy. The Management Board and the management of the subsidiaries work closely together in the context of our opportunity management. The Management Board defines the opportunities in concrete terms within the scope of the annual business planning and target agreements, and agrees them with the operational management of the companies. We strive to ensure a balanced relationship between opportunities and risks on the basis of our business model, in the process pursuing the objective of generating added value for our stakeholders.

The Group has control and reporting processes to ensure the early recognition of opportunities. The summarization of the information takes place within budget and projection calculations. In this way, the opportunity consolidation cycle does not deviate from the consolidation cycle for the consolidated annual financial statements.

On the one hand, opportunities at the level of KAP-Beteiligungs-AG arise from the pooling of financial strength and central cash management. In this way, we provide our operating subsidiaries with the necessary scope for strategic investment and access to large-volume orders from multinational companies or public contracting entities under favorable conditions.

On the other hand, we have a number of potential opportunities at the operational level, which are controlled by the individual subsidiaries. They have the knowledge of the respective markets and competitors and can thus evaluate the opportunities accordingly and use them if necessary. Opportunities also arise in particular through the continuous development of new products in close cooperation with customers and suppliers. This often results in new applications and technologies.

At industry level, there are great opportunities for the product worlds in which our subsidiaries are active. Environmental protection and energy efficiency in particular are of relevance in all industrial sectors. Energy prices and environmental standards will continue to rise in the long term. Due to the increased use of technical textiles, for example, in vehicle construction, lower consumption values can be achieved by weight reduction, and our products offer increased thermal insulation protection for the construction sector.

We see company-specific opportunities through the planned optimization of our capacity utilization at individual locations. By concentrating our production capacities on fewer sites, we will significantly improve our cost position in the long term and thus become more competitive.

SUMMARIZING ASSESSMENT

Existential risks:
None!

In the 2016 financial year, we identified all potential risks and analyzed and assessed their relevance for the business. We have not been able to identify any risks that threaten the existence of the company. Risks that could have an impact on the assets, financial and earnings position have been documented and appropriate measures taken.

DECLARATION ON CORPORATE GOVERNANCE AND THE CORPORATE GOVERNANCE REPORT

The declaration on corporate governance in accordance with § 315 HGB and the Corporate Governance Report in accordance with Number 3.10 of the German Corporate Governance Code are published together on the company's website at www.kap.de/Investor Relations.

SUPPLEMENTARY REPORT

The remaining 120,000 Allianz SE shares were sold with effect from 2 January 2017. This delivered proceeds of €18.8 million and earnings of €10.9 million.

OUTLOOK AND FORECAST REPORT

New strategy pushes
for strong growth

We have revised our corporate strategy over the past few months and will continue to drive our growth. In so doing, we continued to focus on the organic growth of our existing investment companies, but in the future we will make greater use of the opportunities offered to us for acquisitions than before. In close consultation with the Supervisory Board, we will also make greater use of the network and the know-how of our new majority shareholder Carlyle. We see this as a good opportunity to grow dynamically again. At present, we are examining three takeover targets, but we will not act hastily and will wait for the results of the due diligence. Care is more important than speed in this case.

In the last few years, we have created the basis for further growth in sales and earnings through various measures taken by our subsidiaries. The turnover threshold in the current consolidated group of €400 million will be exceeded in the current financial year. We are planning a disproportionate increase in the adjusted operating result to at least €16.5 million. Compared to the previous year's target figure of around €13.0 million, this would represent an increase of at least 27%. From our perspective, the further productivity gains at MEP and at the Geiger Group will mainly be responsible for this development. In addition, we will focus intensively on the Bebusch Group, which in the past financial year did not perform to its potential and recorded a downturn in business. We are optimistic that we will be able to achieve sustainable recovery here.

For our **engineered products** segment, we are planning sales of over €290 million for 2017. In segment earnings, we want to exceed the €15.0 million threshold again – but this time without the help of special income.

In the **automotive components** segment, we intend to exceed the threshold of €110.0 million for the first time. Adjusted segment earnings will rise disproportionately, but restructuring at Bebusch might result in costs, making a more accurate forecast difficult.

In the **all other segments**, we intend to bring the development project in Augsburg to a successful conclusion, but the delays in the past have shown that we must be cautious with our forecasts.

We are planning investments to be slightly above the level of depreciation again, and to slow down the rate of investment slightly in 2018. We are planning the biggest individual measures at MEP's German and foreign locations, where we will make replacement and expansion investments. In addition, we will create additional capacity at OMT in Portugal and install new machinery in the Geiger Group for the production of new product groups.

Target revenue by 2018
€430–450 million

With regard to the current consolidated group, we aim to increase sales by between €430 and 450 million in the next two to three years. In this process the adjusted result should grow disproportionately - that is our ambition. In doing so, we will make use of the potential efficiency improvements in our subsidiaries, and as a result we also expect a higher cash flow from current business activities. We expect the working capital to be approximately at the level of the past 2016 financial year.

However, as we are increasingly looking into and will certainly conclude acquisitions in the future, sales will move significantly towards, as an initial intermediate target including the acquisitions, the €500 million mark. As we are focusing primarily on companies that are successful in their segment, the result will also develop positively. We will certainly be able to announce a first acquisition soon, even if there is nothing concrete at the moment.

At the same time, we are willing to leave our core business of **engineered products** and **automotive components** and are also looking for companies outside these two segments, for example, in areas where we can pursue a buy-and-build strategy. Our preferred target companies should have an enterprise value in the double-digit millions.

Thanks to the low level of debt, the existing credit lines give us considerable scope for acquisitions. In addition, we have decided to sell non-operating assets in order to make further acquisitions. A first step was the liquidation of our share package, which we sold around the turn of 2016/2017, and which we liquidated for in excess of €30 million.

Our ambition to grow as an investment company of course does not rule out selling a company once in a while. We want to preserve this flexibility, even if no such transaction is planned.

Fulda, 7 April 2016

KAP-Beteiligungs-AG

Dr. Stefan Geyler
Management Board Member

André Wehrhahn
Management Board Member

SUPERVISION AND COUNCIL

Dear Shareholders,

In the 2016 financial year, the Supervisory Board continued to focus on the operational development of the company portfolio. We worked closely together with the Management Board, and the first sustained successes occurred in the **automotive components** segment. Our confidence for further positive development in the coming years remains intact. In addition, we were always extensively and promptly informed of possible acquisitions in review and finally agreed to 26% of the shares in NOW Contec in Waldfischbach-Burgalben, with the option of acquiring a further 25%. All the measures planned and implemented by the Management Board were discussed in detail, and subjected to controversy, and then supported unanimously. We were also regularly informed about the progress of the liquidation of our subsidiary STÖHR & Co. AG i. L. The results of the final company audit for the 2008 to 2013 financial years, which we were informed about by the Management Board as soon as they had become available, had been long outstanding. The Management Board also continuously informed us about the price development of our securities portfolio.

In terms of good corporate governance, the Supervisory Board carefully and regularly monitored the KAP-Beteiligungs-AG Management Board's business management during the reporting period. In doing so, we reviewed the legality, appropriateness, and regularity of the management.

We also monitored the further strategic development of the Group as well as major individual measures. The Management Board advised the Supervisory Board both in the Supervisory Board meetings and through written and oral reports on business policy and all relevant aspects of corporate planning. The financial situation and profitability of the Group were discussed in addition to financial, investment and personnel planning, the economic situation of the company, and the Group (including risk analysis and risk management). The Management Board involved the Supervisory Board in all decisions that are important to the Group. We have consented to transactions that were subject to approval after thorough consultation and examination of the documents presented to us by the Management Board.

If it seemed necessary or appropriate for effective monitoring, we requested and examined additional internal documentation from the company. At the same time, current topics and decisions were discussed in regular meetings between the Management Board and the chairman of the Supervisory Board. The chairman of the Supervisory Board was in regular contact with his Supervisory Board colleagues and informed them comprehensively.

Meetings of the Supervisory Board

A total of five Supervisory Board meetings were held during the 2016 financial year. All the members were represented at over half of the meetings, and the following key issues were dealt with in detail:

During the first meeting on February 9, 2016, the Management Board presented the provisional figures for the financial year 2015 before the final audit by the auditors and explained the general business development of the company. Companies from both the **engineered products** segment and from **automotive components** were individually addressed. In addition, the Management Board gave an overview of the state of the liquidation at STÖHR Co. & AG i. L. and our Schäfflerbachstrasse property project. After that, we briefly looked at the successful start of the business year that had just begun.

The Management Board then discussed with us the press release to be published, in which it wanted to provide a first overview of the past financial year. The draft was adopted without amendment. To conclude, we were informed in detail about the development of the securities portfolio.

Our second meeting of the financial year took place on April 27, 2016. In this meeting we discussed the consolidated financial statements and the annual financial statements for 2015 in the presence of the auditor elected at the Annual General Meeting on August 28, 2015, namely BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, and subsequently approved and adopted them in accordance with § 171 of the German Stock Corporation Act (Aktiengesetz, AktG). We also took note of the corporate governance statement, including the corporate governance report as part of the consolidated financial statements, as well as the report on the risk management system, and approved the Supervisory Board report. Prior to this we had the system of risk evaluation in the Group explained to us in detail by the Management Board. The discussion about the dividend proposal to the Annual General Meeting took up much time, and we finally agreed on €1 per share.

The Management Board then presented the business figures for the first quarter of 2016 and the draft interim report on the business development of the first three months of the 2016 financial year. The Management Board outlined the successful development of almost all subsidiaries, and the next steps for maintaining the performance on a 12-month basis. Finally, the Management Board once again gave us an overview of the current state of the real estate development project in Schäfflerbachstrasse, Augsburg, which unfortunately has not yet been completed. To conclude, we took note of the current financial calendar and were informed about the state of the share portfolio.

Due to its urgency, the third meeting of the 2016 financial year was held in circulation. In addition to the invitation announcement for the Annual General Meeting on August 26, 2016 and the proposals for resolutions at the Annual General Meeting of STÖHR & Co. AG i. L., the proposals to the Annual General Meeting on the new appointment of the Supervisory Board were also adopted. The updated Declaration of Conformity with the German Corporate Government Code for 2016 was also adopted.

At the fourth meeting held on August 26, 2016, we first discussed the business performance in the first half-year 2016, which the Management Board had previously presented to us, in order to obtain a more detailed overview of the individual segments. We talked in detail about the turnaround at MEP and the remaining problems with its subsidiaries in China and India. We agreed with the measures introduced and will monitor further developments closely. In addition, the Management Board informed us about the acquisition of a minority stake in NOW Contec GmbH & CO. KG, Waldfischbach-Burgalben, and the progress of further acquisition talks. After discussing various compliance issues, we gained a positive outlook for the second half of 2016. After briefly addressing the topics of the forthcoming Annual General Meeting, the Management Board informed us about the financial situation of the company, which continues to be satisfactory. The development of the securities portfolio was also discussed in this context.

The ongoing business development for the 2016 financial year was discussed at the beginning of the last Supervisory Board meeting of the past financial year on December 9, 2016. After the detailed presentation, the Management Board completed its presentation with an initial projection for the financial year as a whole. The description of the situation in the individual areas of the two segments engineered products and automotive components formed a major part of this. Overall, many projects are progressing well, with the result that we expect a sustained positive development for 2017 as well. After a few questions, we noted the statements. Then we were presented with an overview of the developments in the non-operating companies STÖHR, KTH, and Schäfflerbachstrasse. After the completion of the 2008-2013 company audit and the payment of the last liquidation installment in November 2016, the proposals for the decision to approve the last Annual General Meeting of STÖHR & Co. AG i. L. were adopted unanimously. In addition, we were given an overview of the development of the securities portfolio and the financial and liquidity situation of the Group, with the result that we are confident that the Group is able to manage acquisitions at all times, as it has in the past.

Finally, the key data for the 2017-2019 planning for the individual subsidiaries was presented to us, which we took notice of and approved.

After a detailed discussion, the financial calendar for 2017 and provisionally for 2018 as well as the Declaration of Conformity with the German Corporate Governance Code in the still valid version of May 5, 2015 were adopted.

Corporate governance

The Supervisory Board strongly supports compliance with the German Corporate Governance Code and thus a responsible corporate management and control geared towards sustainable value creation.

We discussed the implementation of the regulations of the German Corporate Governance Code in the meetings of the Supervisory Board.

We satisfied ourselves that the company complied with the recommendations of the Corporate Governance Code in the past financial year in accordance with the Declaration of Conformity of December 2016.

A summary presentation of the KAP-Beteiligungs-AG corporate ratios is published on our homepage, as is the Declaration of Conformity of December 2016.

Financial statements and consolidated financial statements

The annual financial statements, together with the management report for 2016, as well as the consolidated financial statements with explanatory notes and the Group management report for 2016, including the accounting, were audited by the auditor elected at the Annual General Meeting on August 26, 2016, namely BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg. The auditor raised no objections and issued an unqualified audit opinion.

For the 2016 financial year, the financial statements, consolidated financial statements, management report and the consolidated management report, as well as the proposal for the appropriation of profit, were presented to the Supervisory Board in accordance with § 170 of the German Stock Corporation Act (Aktiengesetz, AktG). The Supervisory Board discussed the consolidated financial statements and the annual financial statements in detail with the Management Board and in the presence of the auditor in the meeting of 25 April 2017. After the conclusion of its examination, the Supervisory Board does not have any objections. It has approved the consolidated financial statements and the annual financial statements for 2016. The annual financial statements are therefore adopted in accordance with § 172 AktG.

The Supervisory Board agrees with the proposal of the Management Board to the Annual General Meeting for the appropriation of the retained profit.

Personnel

The Supervisory Board expresses its thanks and appreciation to the Management Board for its commitment and achievements in the 2016 financial year. Our thanks also go to the management of the subsidiaries and, in particular, to all KAP Group employees for their services in the past financial year.

There were also some personnel changes on the Supervisory Board during the reporting year. The two members elected until the 2017 Annual General Meeting, Mr. Uwe Stahmer and Mr. Michael Kranz, resigned from the Supervisory Board with effect from the end of the 2016 Annual General Meeting. At the Annual General Meeting on August 26, 2016, Mr. Fried Möller and Werner Ritzi were by-elected for the rest of the term.

Due to the withdrawal of the long-standing major shareholder of DAUN & Cie. AG from KAP Investments and the sale of the majority of the voting rights in the company to the Carlyle Group, both the long-standing chairman of the Supervisory Board, Mr. Class E. Daun, and Mr. Werner Ritzi resigned from the Board with effect from December 18. Ian Jackson and Christian Schmitz were appointed by court order as new members. Mr. Jackson was elected as chairman by the members at the meeting on February 5, 2017.

We would like to express our special thanks to all departing members of the Supervisory Board for their in some cases many years of work in the interest of the company.

Fulda, April 2017

Yours faithfully

Ian Jackson
Chairman of the Supervisory Board

CONSOLIDATED FINANCIAL STATEMENTS IFRS

Consolidated Statement of Income

from January 1 to December 31, 2016

in € thousands	Note	2016 KAP-Group	2015 KAP-Group
Revenue	(28)	385,782	374,492
Changes in inventories and own work capitalized		-331	4,565
Total performance		**385,451**	**379,057**
Other operating income	(29)	11,951	11,649
Cost of materials	(30)	-218,410	-219,645
Personnel expenses	(31)	-90,125	-86,614
Depreciation and amortization of intangible assets, property, plant and equipment and investment property	(32)	-21,221	-22,611
Other operating expenses	(33)	-49,659	-49,800
Operating result		**17,987**	**12,035**
Investment income	(34)	-	-23
Interest result	(35)	-4,717	-5,451
Other financial result	(36)	7,248	4,219
Financial result		**2,531**	**-1,255**
Earnings before income taxes		**20,518**	**10,779**
Income taxes	(37)	-8,182	-9,331
Result of discontinued operations	(38)	416	74
Income taxes discontinued operations		-	-
Group annual result after taxes		**12,751**	**1,523**
Profit share of minority interests	(39)	-671	-602
Consolidated annual result of KAP-Beteiligungs-AG shareholders		**12,080**	**921**
Earnings per share (in EUR)	**(40)**	**1.82**	**0.14**
Diluted earnings per share (in EUR)	**(40)**	**1.82**	**0.14**

Due to the presentation of figures in € thousands rounding differences may occur in the summation.

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Consolidated Statement of Comprehensive Income/Loss

as of December 31, 2016

in € thousands	Note	2016 KAP-Group	2015 KAP-Group
Consolidated annual result after taxes		**12,751**	**1,523**
Unrealized gains from currency translation		435	3,578
Unrealized losses from financial assets available for sale	(44)	- 6,877	- 2,456
Items which may be reclassified in the income statement in the future		**- 6,442**	**1,122**
Actuarial gains/losses from defined benefit plans	(21)	- 2,050	263
Deferred taxes on actuarial gains/losses from defined benefit plans	(37)	615	-79
Items which will not be reclassified in the income statement in the future		**- 1,435**	**184**
Other result after taxes		**- 7,877**	**1,306**
Thereof result after taxes attributable to non-controlling interests		- 11	- 3
Thereof result after taxes attributable to shareholders of KAP-Beteiligungs-AG		- 7,866	1,309
Total comprehensive income		**4,875**	**2,829**
Thereof total result attributable to non-controlling interests attributable to total comprehensive income		661	599
Thereof group total result attributable to shareholders of KAP-Beteiligungs-AG		4,214	2,230

Due to the presentation of figures in € thousands, rounding differences may occur in the summation.

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Consolidated Statement of Financial Position

as at December 31, 2016

ASSETS

in € thousands	Note	12/31/2016	12/31/2015
FINANCIAL ASSETS			
Non-current assets			
Intangible assets	(7)	1,741	1,910
Property, plant and equipment	(8)	136,856	133,633
Investment properties	(9)	5,741	7,039
Financial assets accounted for using the equity method	(10)	2,010	0
Other financial assets	(11)	1,232	1,220
Deferred tax assets	(12)	6,743	8,499
		154,323	**152,302**
Current assets			
Inventories	(13)	72,481	74,608
Trade receivables	(14)	56,668	52,755
Actual income taxes	(15)	1,625	2,299
Other receivables and assets	(16)	6,147	5,470
Securities	(17)	18,624	34,188
Cash and cash equivalents	(18)	4,138	2,738
		159,683	**172,058**
Long-term assets held for sale	**(19)**	**1,029**	**2,666**
		315,034	**327,025**

LIABILITIES

in € thousands	Note	12/31/2016	12/31/2015
EQUITY AND LIABILITIES			
Equity and reserves			
Subscribed capital		17,224	17,224
Capital reserve		48,966	48,966
Revenue reserves		-2,174	5,692
Retained earnings		81,269	75,831
KAP Beteiligungs AG shareholders' equity		**145,285**	**147,713**
Minority interests		2,008	3,772
	(20)	**147,293**	**151,485**
Long-term liabilities			
Provisions for pensions and similar obligations	(21)	20,958	19,537
Long-term financial liabilities	(22)	26,970	36,383
Deferred tax liabilities	(12)	733	784
Other long-term liabilities	(23)	607	257
		49,269	**56,961**
Current liabilities			
Other provisions	(24)	25,004	27,117
Current financial liabilities	(22)	60,948	59,892
Trade payables	(25)	21,937	18,123
Actual income taxes	(26)	2,475	3,606
Other liabilities	(27)	8,109	9,842
		118,473	**118,579**
		315,034	**327,025**

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Due to the presentation of figures in € thousands rounding differences may occur in the summation.

Consolidated Statement of Cash Flows

as of December 31, 2016

in € thousands	2016	2015
Earnings before interest and income taxes	**25,651**	**16,305**
Depreciation and amortization of asset values of fixed assets (offset against write-ups)	21,221	22,612
Change in provisions	-2,753	-2,591
Other non-cash expenses and income	-6,482	-6,347
Results from the disposal of fixed assets and discontinued operations	-227	-49
Cash flow from operating activities before changes in assets and liabilities	**37,410**	**29,931**
Changes in inventories, receivables and other assets not attributable to investing and financing activities	-530	-3,086
Changes in payables and other liabilities which are not attributable to investing and financing activities	2,528	471
Cash flow from operating activities before interest and income taxes	**39,408**	**27,316**
Interest paid and received	-4,321	-3,937
Income taxes paid and received	-5,958	-988
Cash flow from operating activities	**29,129**	**22,392**
Proceeds from disposals of property, plant and equipment (including investment property)	1,661	1,093
Investments in property, plant and equipment (including investment property)	-24,846	-15,746
Investments in intangible assets	-405	-510
Proceeds from the disposal of financial assets	-	48
Investments in financial assets	-2,022	-
Cash inflow from the sale of securities	13,274	14,077
Cash flow from investing activities	**-12,338**	**-1,038**

in € thousands	2016	2015
Dividend paid to shareholders	-6,624	-66,244
Proceeds from the acquisition of financial liabilities	4,994	61,334
Disbursements for the repayment of financial liabilities	-11,394	-27,587
Proceeds from repayments of financial receivables	245	1,099
Disbursements by granting loans	-297	-5,197
Cash flow from financing activities	**-13,076**	**-36,595**
Net change in cash and cash equivalents	3,715	-15,242
Effect of changes in foreign exchange rates, consolidation group and valuation-related changes in cash and cash equivalents	-2,315	1,502
Cash and cash equivalents at beginning of period	2,738	16,478
Cash and cash equivalents at end of period	**4,138**	**2,738**

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Due to the presentation of figures in € thousands rounding differences may occur in the summation.

For explanations of the Consolidated Statement of Cash Flows, see note 47

Consolidated Statement of Changes in Equity

as of December 31, 2016

			Reserves		
in € thousands	Subscribed capital	Capital reserve	Currency differences	Cash flow hedges	Financial assets available for sale
01/01/2015	**17,224**	**48,966**	**-23,916**	**-**	**20,082**
Inflation adjustment in accordance with IAS 29	-	-	-	-	-
Capital increase	-	-	-	-	-
Capital reduction	-	-	-	-	-
Change in revenue reserves	-	-	-	-	-2,456
Dividends	-	-	-	-	-
Currency differences	-	-	3,553	-	-
Change in consolidation group	-	-	25	-	-
Group annual result	-	-	-	-	-
Withdrawals from retained earnings	-	-	-	-	-
Other changes	-	-	-	-	-
12/31/2015	**17,224**	**48,966**	**-20,338**	**-**	**17,626**
Inflation adjustment in accordance with IAS 29	-	-	-	-	-
Capital increase	-	-	-	-	-
Capital reduction	-	-	-	-	-
Change in revenue reserves	-	-	-	-	-6,877
Dividends	-	-	-	-	-
Currency differences	-	-	435	-	-
Change in consolidation group	-	-	-	-	-
Group annual result	-	-	-	-	-
Appropriation to retained earnings	-	-	-	-	-
Other changes	-	-	-	-	-
12/31/2016	**17,224**	**48,966**	**-19,903**	**-**	**10,749**

Due to the presentation of figures in € thousands rounding differences may occur in the summation.

For explanations of Equity see note 20.

Actuarial profit/losses	Other	Total	Group retained earnings	KAP Shareholders' equity	Minority interests	Total equity
-5,200	**28,450**	**19,415**	**126,133**	**211,738**	**3,820**	**215,558**
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
188	-15,000	-17,268	-	-17,268	-3	-17,271
-	-	-	-66,244	-66,244	-	-66,244
-	-	3,553	35	3,588	-	3,588
-	-32	- 7	-	-7	-	-7
-	-	-	921	921	602	1,523
-	-	-	15,000	15,000	-	15,000
-	-	-	-14	-14	-647	-661
-5,012	**13,418**	**5,693**	**75,830**	**147,713**	**3,772**	**151,485**
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-1,755	-1,755
-1,424	0	-8,301	-	-8,301	-11	-8,312
-	-	-	-6,624	-6,624	-	-6,624
-	-	435	-	435	0	435
-	-	-	-	-	-	-
-	-	-	12,080	12,080	671	12,751
-	-	-	-	-	-	-
-	0	0	-17	-17	-669	-686
-6,436	**13,418**	**-2,174**	**81,269**	**145,285**	**2,008**	**147,293**

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Notes to Consolidated Financial Statements

FOR THE 2016 FINANCIAL YEAR

ADOPTION OF IFRS INTO EUROPEAN LAW

Regulation (EC) No. 1606/2002 of the European Parliament and European Council (IAS Regulation) on the application of International Financial Reporting Standards was adopted on July 19, 2002. In accordance with the IAS regulation, all capital-market-oriented companies subject to the law of an EU Member State are required to prepare their consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) for financial years beginning on or after January 1, 2005. Article 3 of the IAS Regulation provides for a right of examination in favor of the EU Commission before the standards in the EU Official Journal are published and thus become binding for companies of EU Member States (endorsement). As of the respective balance sheet date, only the accounting standards adopted by EU regulations as part of the endorsement, as well as their interpretations are mandatory. Transformation by the legislators of the member states into the respective national law is not necessary.

1 · GENERAL REMARKS

KAP-Beteiligungs-Aktiengesellschaft (KAP-Beteiligungs-AG or KAP Group) has prepared the consolidated financial statements as of December 31, 2016 in accordance with the International Financial Reporting Standards (IFRS) applicable in the EU Member States and the additional requirements of § 315a HGB (German Commercial Code). The consolidated financial statements of KAP-Beteiligungs-AG take into account and have been prepared in accordance with all regulations of the International Financial Reporting Standards (IFRS) as well as the related interpretations (IFRIC), which are mandatory as of December 31, 2016. The statement of cash flows and the statement of changes in shareholders' equity are shown in addition to the balance sheet, the income statement and the statement of comprehensive income. The notes also contain segment reporting.

In order to improve the clarity of the presentation, various items of the consolidated balance sheet and the consolidated income statement are summarized. These items are correspondingly broken down and explained in the notes.

The consolidated income statement has been prepared using the total cost method.

The reporting currency of the Group is the euro. All figures are given in thousands of euros (€ thousands) unless otherwise stated. Due to the presentation in € thousands, rounding differences may occur in the summation.

The registered office of KAP-Beteiligungs-AG is Fulda, Germany.

2 · CONSOLIDATED GROUP

In addition to KAP-Beteiligungs-AG, the consolidated financial statements include all major domestic and foreign subsidiaries that are under the legal and/or actual control of KAP-Beteiligungs-AG. In addition to the parent company, the consolidated group includes 24 domestic and 15 foreign companies.

Investments in joint ventures and associated companies are accounted for using the equity method.

Interests in subsidiaries and investments in joint ventures and associated companies whose influence on the assets, financial and earnings position is of minor importance are not included in the consolidated financial statements, but are recognized at amortized cost. Five subsidiaries and two investments were not included. The key figures for the companies not included in the consolidated financial statements are less than 1% respectively of the consolidated turnover, the consolidated equity and the consolidated balance sheet total.

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

	12/31/2015	Additions	Disposals	12/31/2016
Germany	27	-	2	25
International	16	-	1	15
Total	**43**	**-**	**3**	**40**

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The disposals concern the merger of Synteen & Lückenhaus GmbH to OLBO & MEHLER Tex GmbH & Co. KG and the Protect Transport und Bauschutz Gesellschaft mit beschränkter Haftung with Mehler AG and the liquidation of Coatec s.r.o, Slovakia.

The deconsolidation result of subsidiaries is reported in the investment result. Discontinued operations are reported separately as result of discontinued business areas. The effective date for initial consolidation and deconsolidation is the date on which transfer of control takes place.

With effect of July 1, 2016, 26% of the shares in NOW Contec GmbH and Convert Vliesveredelung GmbH, both based in Detmold, as well as NOW Contec GmbH & Co. KG and Convert Vliesveredelung GmbH & Co. KG, both based in Waldfischbach-Burgalben, were acquired and included in the consolidated financial statements at equity.

The effects resulting from changes in the scope of consolidation have been explained, if they are material, in the corresponding items in the Consolidated Statement of Financial Position as well as the consolidated profit and loss account.

The following companies have made use of § 264 para. 3 HGB on the basis of existing profit-and-loss-transfer agreements with KAP-Beteiligungs-AG:

	Name	Location
	MEHLER Aktiengesellschaft	Fulda
	Schäfflerbachstraße Grundbesitz GmbH	Fulda
16	GM Tec Industries Holding GmbH	Pretzfeld

The other companies, which also made use of § 264 par. (3) HGB as well as § 264b HGB, are indicated in the list of subsidiaries and associated companies pursuant to Section 313 German Commercial Code (HGB).

The documents of KAP-Beteiligungs-AG which are subject to disclosure are submitted to the Federal Gazette and subsequently made public.

3 · CONSOLIDATION PRINCIPLES

The purchase method is applied to all corporate mergers after January 1, 2004. The acquired assets and liabilities of fully consolidated companies are recognized at their fair value. Any difference remaining after the purchase price allocation is accounted for as goodwill. Goodwill is reviewed regularly for impairment, after allocation to a cash-generating unit. The annual financial statements of the companies included are prepared as of the balance sheet date of KAP-Beteiligungs-AG and are based on uniform accounting and valuation methods.

Goodwill offset against reserves before January 1, 2004 is offset against revenue reserves. If the business unit is sold in full or in part, or the value of the cash-generating unit is impaired, the associated goodwill is recognized directly in equity.

Any remaining difference in liabilities is recognized immediately in the income statement. Prior to January 1, 2004, in accordance with the provisions of International Financial Reporting Standards, difference in liabilities from the capital consolidation reported under German commercial law are included in revenue reserves.

Shares in the capital and annual result of fully consolidated subsidiaries not attributable to the parent company are recognized as minority interests within equity.

Changes in the parent company's stake in subsidiaries which do not lead to loss or acquisition of control are recognized as equity transactions.

Investments in joint ventures and associated companies are accounted for using the equity method. Any resulting differences in assets are recorded as goodwill in an auxiliary calculation and regularly subjected to an impairment test. Differences in liabilities are immediately recognized as income in the income statement and increase the carrying amount of the investment.

Intragroup sales, expenses and income, as well as receivables, liabilities and provisions between Group companies, are eliminated as also results from intragroup transactions, insofar as they are relevant to the assets, financial and earnings position.

4 · CURRENCY TRANSLATION

Foreign currency receivables and liabilities reported in the separate financial statements are recognized at the time of addition at the acquisition rate. Exchange rate gains and losses resulting from changes in currency exchange rates arising on the balance sheet date are recorded in the period result through profit or loss.

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

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

Translation differences resulting from varying currency exchange rates in the balance sheet and the income statement are recognized directly in equity.

In the case of consolidated companies in which KAP-Beteiligungs-AG holds less than 100%, the translation differences resulting from the currency translation, insofar as they are attributable to minority interests, are reported separately under minority interests.

Currency translation differences from the debt consolidation are generally recognized through profit and loss.

The following currency exchange rates were used:

	Annual average rate		Mean exchange rate on balance sheet date	
	2016	2015	12/31/2016	12/31/2015
		€1 =		€1 =
Belarus Ruble	2.1879	17,670.0627	2.0686	20,366.0000
Chinese Renmimbi	7.3471	6.9118	7.3252	7.0728
Indian Rupee	74.3748	71.1957	71.6388	72.0666
Canadian Dollar	1.4662	1.4188	1.4223	1.5126
Swedish Krona	9.4682	9.3525	9.5670	9.1815
South African Rand	16.2679	14.1758	14.4687	16.9880
Czech Koruna	27.0321	27.2764	27.0200	27.0220
Turkish Lira	3.3446	3.0261	3.7269	3.1826
Hungarian Forint	311.3493	309.9597	309.7500	315.2500
U.S. Dollar	1.1070	1.1097	1.0560	1.0892

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5 · ACCOUNTING AND VALUATION PRINCIPLES

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

Fair value

The fair value measurement as per IFRS 13, including the information required, is largely uniformly regulated in International Financial Reporting Standards. The fair value is the value that would be achieved by the sale of an asset, or the price that would have to be paid to transfer a debt. The three-level fair value hierarchy according to IFRS 13 is applied. Financial assets and liabilities are allocated to hierarchy level 1, provided that an exchange price for assets and liabilities is on an active market. The assignment to hierarchy level 2 is made if a valuation model is applied or the price is derived from comparable transactions. Financial assets and liabilities are reported in hierarchy level 3 if the fair value is determined from unobservable parameters. The risk of default is also taken into account when valuing assets and liabilities.

Intangible assets

Intangible assets are only recognized if it is probable that the expected future economic benefits and the acquisition or manufacturing costs of the asset can be reliably measured.

Acquired intangible assets are recognized at acquisition cost. These include, in addition to the purchase price, all directly attributable costs incurred to bring the asset into its operating condition.

Internally-created intangible assets are recognized at production cost. The cost of production includes all costs directly attributable to the manufacturing process as well as appropriate parts of the production-related overhead costs.

Research and development costs are generally treated as current expenses. Development costs are capitalized and depreciated on a straight-line basis when a newly developed product or process can be clearly defined, is technically feasible, and either its own use or marketing is envisaged. Furthermore, capitalization requires that the costs are covered by future cash inflows with sufficient reliability.

Intangible assets are carried forward in accordance with the acquisition cost model after initial recognition at the cost of acquisition or manufacturing, taking scheduled depreciation and impairment losses into account.

Amortization takes place on a straight-line basis over a period of three to five years.

Goodwill

Goodwill acquired through a business combination is initially recognized at acquisition cost and in subsequent periods measured at acquisition cost less any cumulative impairment losses.

Property, plant and equipment

Property, plant and equipment are recognized as an asset at their acquisition or production cost, if it is probable that there will be a future economic benefit associated with the property, plant and equipment and the cost of acquisition or production can be reliably measured.

The cost of acquisition includes all directly attributable costs incurred to place the asset into the condition for its intended use. In addition to the direct costs, the production costs also include appropriate parts of the production-related overhead costs.

In subsequent periods, property, plant and equipment are recognized at acquisition and production cost less scheduled depreciation and accumulated impairment losses in accordance with the acquisition cost model. Depreciation takes place on a straight-line basis for assets acquired after January 1, 2004. If a significant portion of the acquisition cost of an asset can be allocated to components, this is depreciated separately. For assets used in multi-shift operations, depreciation increases accordingly.

The assets relating to property, plant and equipment are based on the following operating lives:

	Years
Land and buildings	7 to 50
Technical equipment and machinery	4 to 25
Other equipment, factory and office equipment	3 to 15

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Depreciation is recorded as long as the residual value of the asset is not higher than the carrying amount.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the acquisition or manufacturing costs. Qualifying assets are defined as construction projects or other assets which necessarily require at least twelve months to place them into the condition for their intended use or sale.

Leasing

Leasing agreements, in which all the principal opportunities and risks are borne by the KAP Group as lessee, are classified as finance leases. At the beginning of the leasing contract, the leased item is recognized at the fair value or the lower present value of the minimum lease payments. Scheduled depreciation takes place on a straight-line basis over the shorter of the contract term or the useful life. The payment obligations resulting from future lease payments are reported under financial liabilities.

If the requirements for finance leasing are not met, the lease agreement then becomes an operating lease. Lease payments are recognized immediately as expenses in the income statement of the lessee at maturity.

Government grants

Government grants are only recognized if it is sufficiently certain that the applicant company fulfills the conditions and the grants are actually awarded. As a rule, grants are allocated systematically as income 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 property

Land and buildings not required for operations are classified as investment property and recognized at cost of acquisition or production. Recognition only takes place if it is probable that there will be a future economic benefit associated with the property, plant and equipment and the acquisition or production costs can be measured reliably.

Investment property is carried forward at the corresponding acquisition cost or production cost, less scheduled amortization and accumulated impairment losses. Depreciation is recognized on a straight-line basis over a period of seven to 50 years.

Impairment of assets

For intangible assets with a specific useful life, plant, property and equipment and investment property, an assessment is made at each balance sheet date as to whether there are any indications that assets could be impaired. If such indications exist, the recoverable amounts of these assets are estimated.

For goodwill or intangible assets with indefinite useful lives, the impairment test is carried out annually at each balance sheet date and whenever there are indications of an impairment, by comparing the carrying amount with the recoverable amount. Goodwill acquired through a business combination is allocated to the cash-generating unit that derives from the acquisition.

The economically independent groups within the segments are defined as cash-generating units. The allocation is made no later than the period following the acquisition date. If the carrying amount of the unit is higher than its recoverable amount, the impairment loss recorded in the amount of the difference first reduces the carrying amount of the goodwill and then the carrying amount of the other assets.

Any impairment loss is recognized immediately in the period result. For assets with a certain operating life, the depreciation amounts of future periods are adjusted accordingly.

If there is an indication that an impairment loss recognized for an asset other than goodwill may no longer exist or may have decreased, the recoverable amount of the assets has to be re-estimated. The difference resulting from the change of estimation is recognized as a reversal of impairment loss directly in the period result. A reversal of impairment loss of the new recoverable amount to be determined is limited to the carrying amount that would have arisen if the acquisition costs were continued. The depreciation amounts of future periods are adjusted accordingly.

An impairment loss for the asset groups is determined based on the value in use. The present value of the future net cash inflows was determined, as an active market cannot be used as a reference. The forecast of net cash inflows is based on a single-value budget plan for the KAP Group for the following three years. The value in use is determined using the risk markup method, which takes the expected risk into account by means of a markup in the capitalization interest rate.

Capital costs are calculated as a weighted average of equity and borrowing costs. The cost of capital for **engineered products** was 4.9% (previous year: 6.2%) and 5.7% (previous year: 6.0%) for **automotive components.** 30% was used as the standard tax rate. This resulted in a 6.6% (previous year: 8.3%) pre-tax interest rate for **engineered products** and 7.6% (previous year: 8.0%) for **automotive components** with a growth rate of 0% (previous year: 0%).

Financial assets accounted for using the equity method

In the case of investments in associated companies and joint ventures accounted for using the equity method, the first-time recognition is made at acquisition cost plus any gain of a bargain purchase. In the subsequent periods, the carrying amount of the shares changes by the proportionate period result. Dividends received are deducted from the carrying amount. Depreciation is done at the lower fair value, if necessary.

Other financial assets

Interests in non-consolidated companies, investments not accounted for using the equity method, and securities held as fixed assets are subsequently recognized at acquisition cost and due to their minor influence on the asset, financial and earnings situation at amortized cost. Transaction costs incurred during the acquisition are recognized directly through profit and loss. Depreciation is done at the lower fair value, if necessary.

Loans are recognized at amortized cost in accordance with their classification as loans and receivables following initial recognition at acquisition cost on subsequent balance sheet dates. Impairment losses recognized on the balance sheet date are taken into account with appropriate valuation allowances.

Deferred taxes

Deferred taxes are recognized for temporary valuation differences. The calculation is based on the concept of the balance sheet liability-based method. It encompasses all accounting differences and valuation differences recognized through profit and loss and directly in equity, insofar as these lead to a tax burden or relief in the future.

Deferred taxes on tax loss carry forwards are capitalized, if it is sufficiently probable that adequate taxable income will be available in future in order to be able to use these loss carryforwards.

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

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

Inventories

Inventories are measured at the lower value of acquisition or production costs and net realizable value.

The acquisition cost of raw materials and supplies and merchandises includes all directly attributable costs.

In addition to the direct costs, the production costs of the unfinished and the finished products are also included in the production-related overhead costs based on normal capacity utilization.

Inventory risks with respect to storage time and usability, which result in a net realizable value less than the cost of acquisition or production, are taken into account with appropriate valuation allowances. If the reasons for an impairment loss that has already occurred in previous periods no longer apply, a reversal of an impairment loss is made up to the adjusted net realizable value.

Other receivables and assets

Other receivables and assets are classified as loans and receivables, unless they are derivative financial instruments. For the first-time recognition on the settlement date, they are recorded at acquisition cost, taking into account directly attributable transaction costs. On the balance sheet date, the valuation is carried out at amortized cost. In the case of doubtful receivables, appropriate valuation allowances are made. Uncollectable receivables are recorded as losses on receivables. Non-interest-bearing and low-interest receivables with a maturity of more than one year are recognized at their present value.

If an impairment loss that has already been incurred in previous reporting periods has reduced in the past financial year, the original valuation allowance is adjusted through profit and loss, however at most until the carrying amount corresponds to the amortized cost which would have resulted without an impairment.

Actual income taxes

Actual income taxes for current and earlier periods are recorded as liabilities with the amount still payable. If the advance payments exceed the amount owed, the difference is recognized as tax asset.

Derivative financial instruments

Derivative financial instruments are used for hedging currency and interest-rate risks arising from the operating business and the associated financing activities.

The derivatives are booked for the first time on the settlement date. The fair value is determined as at the balance sheet date. Derivatives with positive fair values are reported under other receivables and assets. Derivatives with negative fair values, depending on their life, are reported under other non-current liabilities or other liabilities and are classified as held for trading purposes.

The effects from changes in fair values are generally recognized through profit and loss. If the requirements for hedge accounting are met, for fair value hedges a compensatory effect results in the income statement due to the opposing underlying transaction. Value fluctuations in cash flow hedges that are used to hedge future cash flows from already recorded underlying transactions, pending transactions or planned transactions are reported directly as equity under revenue reserves taking into account deferred taxes, until the hedged underlying transaction is recognized through profit or loss. The non-effective portion is recognized through profit and loss in the financial result.

Securities

Listed shares are classified as available-for-sale financial assets. The valuation is carried out at acquisition cost at the time of acquisition and at the balance sheet date at the current market price (fair value or market value). The fluctuations in value between the cost of acquisition and the market value on the reporting date are recognized directly in equity until the sale of the shares. On disposal, the cumulative gains and/or losses are recognized through profit or loss in the income statement. If there are objective indications of a permanent or significant impairment, the cumulative losses in equity are recognized through profit or loss. Due to the liquidity on the stock exchange, the shares are reported under current assets.

Non-current assets held for sale and discontinued operations

Non-current assets and/or disposal groups as well as liabilities associated with non-current assets and disposal groups are classified as held for sale if the carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

These non-current assets and/or disposal groups are stated at the lower of its carrying amount and fair value less costs to sell at the balance sheet date. They are reported separate from other assets in the balance sheet. Liabilities from non-current assets classified as held for sale and disposal groups are reported separate from other liabilities.

Provisions for pensions and similar obligations

Provisions for pensions are based on actuarial assessments at the end of each financial year. 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 recognized in full as other comprehensive income in equity under revenue reserves. Service costs are recognized in personnel expenses.

Qualifying insurance policies are treated as plan assets and measured at fair value on the balance sheet date. The value of plan assets reduces the present value of the defined benefit obligations. In the balance sheet the plan assets are offset by at most the present value of the obligation.

The expenses from the compounding of interest on pension provisions and the income from the plan assets reported net in the financial result.

Other provisions

Other provisions include all present obligations to third parties based on past events which are likely to be claimed and the expected amount of which can be estimated reliably.

They are measured at the settlement amount with the highest probability of occurrence.

Provisions are only made for restructuring measures if there is a factual obligation to restructure. This requires a formal restructuring plan, indicating the business area concerned, the most important locations, the number of employees concerned, the costs and the date of implementation, as well as having created a justified expectation in those affected by beginning the implementation or announcing to those concerned that the measure will be implemented.

Financial liabilities

The initial recognition is at acquisition cost. Directly attributable transaction costs are recognized immediately as expenses in the period result. On the balance sheet date, the measurement is carried out at amortized cost using the effective interest method.

Liabilities from finance leases are recognized at the present value of the minimum lease payments. The resulting financing costs are recognized in the financial result as interest expense.

Revenue recognition

The recognition of the revenue takes place as soon as the main opportunities and risks have been transferred to the buyer by the delivery or service to the customer, the amount of the revenue and the costs still arising in connection with the sale can be reliably determined, and it is sufficiently probable that the economic benefit resulting from the sale will accrue.

In the case of long-term contract manufacturing, revenue is not recognized according to the performance progress since the effects on the earnings position are of minor importance.

The figure reported is reduced by sales deductions.

Earnings per share

Earnings per share are calculated by dividing the profit for the period attributable to the ordinary shareholders of the parent company (KAP-Beteiligungs-AG shareholders' consolidated net profit) by the weighted average number of ordinary shares outstanding in the reporting period.

Estimates

In the preparation of the consolidated financial statements, estimates must be made for various items that can affect the recognition and measurement of assets and liabilities, expenses and income as well as contingent liabilities. The actual valuations may deviate from the estimated amounts. Adjustments are made in the period in which the original estimate is changed. The resulting expenses and income are recognized through profit and loss in the respective reporting period. Assumptions and estimates must be made in particular when establishing useful lives for non-current assets, in impairment tests and purchase price allocations and when making provisions for retirement benefits, taxes and risks from operating business.

6 · NEW ACCOUNTING STANDARDS

a) Standards/Interpretations to be used for the first time in the 2016 financial year

Standard/Interpretation		Mandatory from[1]	Adopted by EU Commision[2]	Foreseeable effects
Amendments to IAS 1	Amendments to IAS 1 Presentation of financial statements; clarification with regard to ordering of notes, aggregation and disaggregation of posts in the balance sheet and income statement, presentation of shares in other comprehensive income at equity-accounted companies, cancellation of a model structure for the notes	01/01/2016	Yes	None
Amendments to IAS 19	Amendments to IAS 19 Defined benefit plans: employee contributions; clarification and simplification of accounting of contributions from employees or third parties to defined benefit plans	01/01/2016	Yes	None
Amendments to IAS 16 and IAS 38	Amendments to IAS 16 Property, plant and equipment and IAS 38 Intangible assets; further guidelines for determining an acceptable, revenue-based method for depreciation and amortization	01/01/2016	Yes	None
Amendments to IAS 16 and IAS 41	Amendments to IAS 16 Property, plant and equipment and IAS 41 Agriculture; accounting fruit-bearing plants as property, plant and equipment in accordance with IAS 16; accounting the fruit otherwise in accordance with IAS 41	01/01/2016	Yes	None
Amendments to IAS 27	Amendments to IAS 27 Separate financial statements; equity method as accounting option for investments in subsidiaries, joint ventures and associates in the separate financial statements of an investor reinstated	01/01/2016	Yes	None
Amendments to IFRS 10, IFRS 12 and IAS 28	Amendments to IFRS 10 Consolidated financial statements; IFRS 12 Disclosure of interests in other entities and IAS 28 Investments in associates and joint ventures; clarification of the use of exception from the consolidation obligations when the parent company is the “investor”.	01/01/2016	Yes	None
Amendments to IFRS 11	Common agreements: regulation of the accounting of acquisition of shares in a joint operation that forms a business operation in terms of IFRS 3 Business combinations	01/01/2016	Yes	None
	Improvements to the IFRS 2010-2012 (Annual Improvements)[3]	02/01/2015	Yes	None
	Improvements to the IFRS 2012-2014 (Annual improvements)[4]	01/01/2016	Yes	None

[1]For financial years that start at this or a later point
Until the date of adoption, the date indicated by the EU is referred to
[2]Until December 31, 2016.
[3]Amendments to IFRS 2, IFRS 3, IFRS 8, IAS 16/IAS 38, IAS 24, IAS 38
[4]Amendments to IFRS 5, IFRS 7, IAS 19, IAS 34

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b) Standards/Interpretations to be applied for the first time in future financial years

Standard/Interpretation		Mandatory from[1]	Adopted by EU Commision[2]	Foreseeable effects
IFRS 15	Revenue from contracts with customers	01/01/2018	Yes	Significant changes in complex sales transactions such as long-term production orders or multi-component transactions; extending the appendix/notes
IFRS 9	Financial instruments: regulations for the classification and measurement of financial assets and liabilities as well as derecognition of assets and liabilities	01/01/2018	Yes	Change in recording fair value changes for assets available for sale

[1] For financial year that starts at this or a later point
Until the date of adoption, the date indicated by the EU is referred to
[2] Until December 31, 2016

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c) Standards/Interpretations not yet adopted by the EU Commission

Standard/Interpretation		Foreseeable effects
Amendments to IFRS 2	Amendments to IFRS 2 – Classification and measurement of share-based payment transactions; considerations of conditions for use in the context of the measurement; classifications of share-based payments settled net of tax withholdings; accounting of a change in the conditions	None
Amendments to IFRS 4	Amendments to IFRS 4 Insurance contracts; adjustments due to the first-time application of IFRS 9 for insurers (postponement of IFRS 9 or transitional procedures)	None
Supplements to IFRS 9	Financial instruments: new regulations for hedge accounting in the form of a new general model for the accounting of hedging relationships	Comprehensive reporting obligations
IFRS 16	Leasing	Accounting for all leases generally at the lessee; distinction between finance and operating leases
Amendments to IAS 7	Amendments to IAS 7 Statement of cash flows; improvement of information about the change in debt of a business	None
Amendments to IAS 12	Amendments to IAS 12 Income taxes; clarification that devaluations to a lower market value of debt instruments measured at fair value resulting from a change in the market interest rate lead to deductible temporary differences; addition to rules and examples for determining the future taxable income for the accounting of deferred tax assets	None
Amendments to IAS 28 and IFRS 10	Amendments to IAS 28 Investment in Associates and IFRS 10 Consolidated Financial Statements; recording of the total profit/loss if the transfer of assets constitutes a business in terms of IFRS 3	None
Amendments to IAS 40	Amendments to IAS 40 Transfers of investment property; clarification of the requirements in IAS 40.57 on the transfer from or to investment property	None
IFRIC 22	Foreign Currency Transactions and Consideration paid in advance	Translation of advance payments denominated in foreign currency into the functional currency at the spot rate on the day of payment

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Notes to the consolidated financial statements

Consolidated Balance Sheet

Fixed assets

The list of shareholdings is shown on pages 140 to 141 in the notes to the consolidated financial statements.

The composition and development of the fixed assets is shown separately in the consolidated fixed asset schedule on pages 100 to 103.

7 · INTANGIBLE ASSETS

The carrying amount at the end of the year relates to software and licenses, goodwill, advance payments on intangible assets and the assets for brand, technology and customer relationships resulting from the final purchase price allocation of Riflex Film AB.

8 · PROPERTY, PLANT AND EQUIPMENT

The technical equipment and machinery include assets from finance leases amounting to €836 thousand (previous year: €1,987 thousand). The main lease has a term of 65 months. The non-cancelable minimum term is 36 months. After the end of the term, the plant can be taken over for 2% of the acquisition costs.

Future minimum lease payments are as follows:

in € thousands	12/31/2016	12/31/2015
Future minimum lease payments		
Due within one year	552	1,076
Due within one and five years	-	552
Due after more than five years	-	-
Total	**552**	**1,628**
Interest portion included		
Due within one year	-7	-48
Due within one and five years	-	-7
Due after more than five years	-	-
Total	**-7**	**-55**
Present value of future minimum lease payments		
Due within one year	545	1,029
Due within one and five years	-	545
Due after more than five years	-	-
Total	**545**	**1,573**

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In the 2016 financial year, government grants totaled €287 thousand (previous year: €314 thousand).

9 · INVESTMENT PROPERTY

The disclosure relates to the commercial premises and buildings of the MEHLER Aktiengesellschaft in Fulda, Flieden and Klettgau, the residential buildings of the MEHLER Aktiengesellschaft and the commercial premises of GbR MEHLER/DAUN in Stadtallendorf.

The KAP Group determines the fair value of the investment property held as financial investments using the earning capacity value method, taking into account the ImmoWertV (regulation for property value determination). The expected future income and expenses of a property are discounted as a present value over an average period of ten years on the valuation date. Contractual terms of current tenancy agreements form the basis of the expected rental income; rent increases were not taken into account. On the cost side, maintenance expenditures, rent loss risks as well as cost increases of 2% per year are estimated, derived from the medium-term expected increase in the consumer price.

The following assumptions were made in order to determine the main valuation parameters such as the standard land value, real estate interest rate and the remaining useful life: The standard land values determined by valuation committees were used as the basis. The property interest rate is determined according to the type of property, depending on the location, the type of object, the condition of the property, the age, the potential rental growth and the location forecast. For the useful lives, the periods for which the lease has been concluded are taken into account. 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 property as part of the valuation using the earning capacity value method:

	2016			2015			
	Commercial properties		Residential property	Commercial properties		Residential properties	
Evaluation parameters	Range			Range		Range	
Market rent (€ per sq m/year)	26.81	29.57	12.59	26.71	29.48	8.66	44.40
Property interest rate (%)	6.70	8.00	7.00	6.70	8.00	7.00	7.00
Remaining useful life (years)	7.00	19.00	2.00	8.00	20.00	3.00	10.00
Multiplier	5.02	10.57	1.81	6.13	10.69	2.60	7.02

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The property interest rate was identified as the most important value driver of the market. After taking into account a market-based range of 6.50-8.50%, the following earning capacity values were determined:

	2016		2015	
	Range		Range	
	6.50%	8.50%	6.50%	8.50%
Earning capacity value (in € thousands)	16,661	15,187	20,013	18,206

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10 · FINANCIAL ASSETS ACCOUNTED FOR USING THE EQUITY METHOD

The disclosure relates to Safe-Box Self Storage Mönchengladbach GmbH, Mönchengladbach. Due to the shareholding of 33.33%, the company was included in the consolidated financial statements at equity.

The proportionate unrecognized loss (previous year profit) for the 2016 financial year amounts to €-65 thousand (previous year: €5 thousand).

The summarized financial information is as follows:

in € thousands	12/31/2016	12/31/2015
Income statement disclosures		
Revenue	554	624
Period result	-196	15
Balance sheet disclosures		
Assets	1,958	2,005
Liabilities	2,005	1,856

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The company employed three employees on annual average.

In the reporting year, 26% of the shares in NOW Contec GmbH and Convert Vliesveredelung GmbH, both based in Detmold, and NOW Contec GmbH & Co. KG and Convert Vliesveredelung GmbH & Co. KG, both based in Waldfischbach-Burgalben, were included in the consolidated financial statements at equity. Since the individual financial statements of the companies were not available at the time of concluding the consolidated financial statements, no summarized financial information could be provided.

11 · OTHER FINANCIAL ASSETS

The item mainly includes loans to companies with a participating interest amounting of €1,182 thousand (previous year: €1,182 thousand). The loans are based on long-term loan agreements.

Development of Group Fixed Assets

from January 1 to December 31, 2016

Acquisition/manufacturing costs

in € thousands	01/01/2016	Currency adjustment	Adjustment IAS 29 hyper-inflation	Change consolida-ted group	Additions	Transfers	Disposals	Reclassi-fication[1]	12/31/2016
Intangible assets									
Software and licenses	10,008	-1	-	-	369	180	-198	-	10,357
Development costs	230	-9	-	-	-	-	-	-	221
Brand and brand name	121	-5	-	-	-	-	-	-	116
Technology	30	-1	-	-	-	-	-	-	29
Customer relationships	394	-16	-	-	-	-	-	-	378
Goodwill	3,582	1,241	-	-	-	-	-	-	4,823
Advance payments made on intangible assets	80	-2	-	-	36	-94	-	-	20
	14,446	**1,207**	**-**	**-**	**405**	**86**	**-198**	**-**	**15,944**
Property, plant and equipment									
Land and buildings	110,962	72	-	-	1,572	159	-374	-15	112,374
Technical equipment and machinery	243,900	-96	-	-	9,168	3,686	-3,156	-	253,503
Other equipment, plant and office equipment	43,777	-35	-	-	3,596	318	-1,606	-52	45,999
Advance payments and assets under construction	4,999	5	-	-	10,368	-4,282	-1,038	-	10,053
	403,639	**-54**	**-**	**-**	**24,704**	**-118**	**-6,174**	**-67**	**421,928**
Investment properties	**21,104**	**-**	**-**	**-**	**142**	**32**	**-11**	**-1,327**	**19,940**
Financial assets accounted for using the equity method	**0**	**-**	**-**	**-**	**2,010**	**-**	**-**	**-**	**2,010**
Other financial assets									
Shares in affiliated companies	72	-	-	-	-	-	-	-	72
Investments in companies accounted for at cost	723	-	-	-	12	-	-	-	735
Loans to affiliated companies	-	-	-	-	-	-	-	-	-
Loans to companies with a participating interest	1,402	-	-	-	-	-	-	-	1,402
Other loans	-	-	-	-	-	-	-	-	-
Investment securities	-	-	-	-	-	-	-	-	-
	2,197	**-**	**-**	**-**	**12**	**-**	**-**	**-**	**2,209**
	441,385	**1,152**	**-**	**-**	**27,273**	**0**	**-6,384**	**-1,394**	**462,032**

[1] Reclassified as non-current assets held for sale.

Accumulated depreciation									Carrying amounts		
01/01/2016	Currency adjustment	Adjustment IAS 29 hyper-inflation	Change consolida-ted group	Additions	Write-ups	Transfers	Disposals	Reclassi-fication[1]	12/31/2016	12/31/2016	01/01/2016
8,819	-4	-	-	483	-	-	-187	-	9,111	1,245	1,189
176	-7	-	-	39	-	-	-	-	207	14	55
24	-1	-	-	24	-	-	-	-	47	70	97
6	0	-	-	6	-	-	-	-	12	17	24
79	-4	-	-	76	-	-	-	-	151	227	316
3,432	1,244	-	-	-	-	-	-	-	4,676	146	150
-	-	-	-	-	-	-	-	-	-	20	80
12,535	**1,228**	**-**	**-**	**627**	**-**	**-**	**-187**	**-**	**14,204**	**1,741**	**1,910**
56,740	19	-	-	2,678	-	3	-260	6	59,185	53,189	54,222
181,113	88	-	-	13,528	-	-3	-3,094	-	191,632	61,871	62,787
32,153	-23	-	-	3,595	-	-	-1,517	48	34,256	11,743	11,624
-	-	-	-	-	-	-	-	-	-	10,053	4,999
270,006	**84**	**-**	**-**	**19,801**	**-**	**-**	**-4,871**	**54**	**285,073**	**136,856**	**133,633**
14,065	**-**	**-**	**-**	**546**	**-**	**-**	**-822**	**-411**	**14,200**	**5,741**	**7,039**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,010**	**0**
72	-	-	-	-	-	-	-	-	72	-	-
685	-	-	-	-	-	-	-	-	685	50	38
-	-	-	-	-	-	-	-	-	-	-	-
220	-	-	-	-	-	-	-	-	220	1,182	1,182
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
976	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**976**	**1,232**	**1,220**
297,582	**1,312**	**-**	**-**	**20,974**	**-**	**-**	**-5,880**	**465**	**314,452**	**147,580**	**143,803**

Due to the representation in € thousands, rounding differences may occur in the summation.

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Development of Group Fixed Assets

from January 1 to December 31, 2015

	Acquisition/production costs								
in € thousands	01/01/2015	Currency adjustment	Adjustment IAS 29 hyper-inflation	Change consolida-ted group	Additions	Transfers	Disposals	Reclassi-fication[1]	12/31/2015
Intangible assets									
Software and licenses	10,464	20	-	-	453	11	-941	-	10,008
Development costs	225	5	-	-	-	-	-	-	230
Brand and brand name	119	3	-	-	-	-	-	-	121
Technology	29	1	-	-	-	-	-	-	30
Customer relationships	385	9	-	-	-	-	-	-	394
Goodwill	4,316	-734	-	-	-	-	-	-	3,582
Advance payments made on intangible assets	38	-3	-	-	57	-11	-	-	80
	15,575	**-699**	**-**	**-**	**510**	**1**	**-941**	**-**	**14,446**
Property, plant and equipment									
Land and buildings	110,340	1,001	-	-	561	-665	-274	-	110,962
Technical equipment and machinery	236,438	3,175	-	-	6,719	3,127	-5,560	-	243,900
Other plant, operating and office equipment	44,029	109	-	-	3,145	141	-3,630	-17[1]	43,777
Advance payments and assets under construction	3,431	66	-	-	5,025	-3,361	-162	-	4,999
	394,239	**4,350**	**-**	**-**	**15,450**	**-758**	**-9,626**	**-17[1]**	**403,639**
Investment properties	**24,775**	**-19**	**-**	**-**	**296**	**758**	**-67**	**-4,639[1]**	**21,104**
Financial assets accounted for using the equity method	**0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0**
Other financial assets									
Shares in affiliated companies	77	-	-	-5	-	-	-	-	72
Investments in companies accounted for at cost	723	-	-	-	-	-	-	-	723
Loans to affiliated companies	-	-	-	-	-	-	-	-	-
Loans to companies with a participating interest	1,416	-	-	-	34	-	-48	-	1,402
Other loans	-	-	-	-	-	-	-	-	-
Investment securities	-	-	-	-	-	-	-	-	-
	2,215	**-**	**-**	**-5**	**34**	**-**	**-48**	**-**	**2,197**
	436,804	**3,632**	**-**	**-5**	**16,290**	**-**	**-10,682**	**-4,656**	**441,385**

[1] Reclassified as non-current assets as held for sale.

Accumulated depreciation										Carrying amounts	
01/01/2015	Currency adjustment	Adjustment IAS 29 hyper-inflation	Change consolida-ted group	Additions	Write-ups	Transfers	Disposals	Reclassi-fication[1]	12/31/2015	12/31/2015	01/01/2015
9,261	14	-	-	484	-	-	-941	-	8,819	1,189	1,202
126	4	-	-	45	-	-	-	-	176	55	98
-	0	-	-	24	-	-	-	-	24	97	119
-	0	-	-	6	-	-	-	-	6	24	29
-	1	-	-	77	-	-	-	-	79	316	385
4,169	-737	-	-	-	-	-	-	-	3,432	150	146
-	-	-	-	-	-	-	-	-	-	80	38
13,557	**-718**	**-**	**-**	**637**	**-**	**-**	**-941**	**-**	**12,535**	**1,910**	**2,018**
53,909	330	-	-	2,891	-	-138	-252	-	56,740	54,222	56,431
169,775	2,302	-	-	14,136	-	-	-5,099	-	181,113	62,787	66,664
31,746	135	-	-	3,579	-	-4	-3,303	-	32,153	11,624	12,283
-	-	-	-	-	-	-	-	-	-	4,999	3,431
255,430	**2,767**	**-**	**-**	**20,605**	**-**	**-142**	**-8,655**	**-**	**270.006**	**133,633**	**138,809**
15,480	**-4**	**-**	**-**	**499**	**-**	**142**	**-17**	**-2,035[1]**	**14,065**	**7,039**	**9,296**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0**	**0**
70	-	-	-	1	-	-	-	-	72	-	6
685	-	-	-	-	-	-	-	-	685	38	38
-	-	-	-	-	-	-	-	-	-	-	-
220	-	-	-	-	-	-	-	-	220	1,182	1,196
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
975	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**976**	**1,220**	**1,240**
285,442	**2,046**	**-**	**-**	**21,742**	**-**	**-**	**-9,613**	**-2,035**	**297,582**	**143,803**	**151,363**

Due to the representation in € thousands, rounding differences may occur in the summation.

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12 · DEFERRED TAX ASSETS

The deferred taxes are to be allocated to the following items:

	12/31/2016		12/31/2015	
in € thousands	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	0	69	1	97
Property, plant and equipment	2,835	1,247	3,226	1,607
Investment property	255	-	264	14
Financial assets	-	-	-	-
Inventories	578	894	739	838
Receivables and other assets	519	215	502	236
Pension provisions	3,210	-	2,680	-
Other provisions	674	197	528	196
Liabilities	323	67	1,073	91
Other	1	110	1	22
Gross value deferred taxes on temporary valuation differences	**8,395**	**2,800**	**9,013**	**3,101**
Valuation allowances on temporary valuation differences	-547	-	-769	-
Tax loss carryforwards	7,672	-	10,726	-
Valuation allowances tax loss carryforwards	-6,710	-	-8,155	-
Reclassification of assets held for sale	-	-	-	-
Offsetting	-2,067	-2,067	-2,317	-2,317
27	**6,743**	**733**	**8,499**	**784**

Valuation adjustments on deferred tax assets were carried out if there were uncertainties as to their usability. Positive profit forecasts for subsequent periods are decisive for the usability of deferred tax assets. For the use of tax loss carryforwards, the duration of the carryforward ability must also be considered.

The balance of unused corporate income tax and comparable foreign loss carryforwards is as follows:

in € thousands	12/31/2016	12/31/2015
Can be carried forward up to 5 years	12,567	8,869
Can be carried forward up to 10 years	5,189	4,840
Can be carried forward more than 10 years	1,713	1,490
28 Can be carried forward indefinitely	3,909	8,265
	23,378	**23,464**

The balance of €34 thousand (previous year: €12,726 thousand) of unused commercial tax loss carryforwards can be carried forward indefinitely.

No deferred tax assets were recognized for active temporary valuation differences in the amount of €2,444 thousand (previous year: €3,273 thousand).

Deferred taxes in the amount of €1,148 thousand (previous year: €3,130 thousand) were capitalized without being offset by positive results from the reversal of deferred tax liabilities. The companies expect positive taxable income in the future following tax losses in the 2016 financial year or in the previous year.

13 · INVENTORIES

in € thousands	12/31/2016	12/31/2015
Raw materials and supplies	**26,160**	**27,285**
Valuation adjustment	-1,423	-1,612
Carrying amount	24,737	25,673
Unfinished products, unfinished services	**20,817**	**19,858**
Valuation adjustment	-931	-569
Carrying amount	19,887	19,289
Finished goods	**25,147**	**27,760**
Valuation adjustment	-1,785	-2,385
Carrying amount	23,362	25,375
Merchandises	**4,488**	**4,041**
Valuation adjustment	-825	-369
Carrying amount	3,663	3,673
Advance payments made on inventories	**832**	**597**
29	**72,481**	**74,608**

Of the total amount, inventories were recognized with a carrying amount of €12,421 thousand (previous year: €9,926 thousand) at net realizable value. The value reductions recognized in the 2016 financial year at net realizable value amounted to €2,861 thousand (previous year: €2,107 thousand).

14 · TRADE RECEIVABLES

in € thousands	12/31/2016	12/31/2015
Trade receivables from		
– Third parties	56,668	52,746
– Affiliated companies	-	-
– Investment companies	-	9
30	**56,668**	**52,755**

Receivables against third parties resulted in valuation adjustments of €2,811 thousand (previous year: €3,776 thousand).

All trade receivables are due within one year.

The valuation allowances on trade receivables have developed as follows:

	in € thousands	2016	2015
	Balance of valuation allowances as at January 1	**3,776**	**3,803**
	Allocations	353	583
	Consumption/currency differences	-1,129	-194
	Reversals	-189	-416
	Derecognition/change in the consolidated group	-	-
31	**Balance of valuation allowances as at December 31**	**2,811**	**3,776**

On the balance sheet date there were trade receivables that were overdue but for which the value was not adjusted:

	in € thousands	Less than 3 months	3–6 months	6–9 months	More than 9 months	Total
	Balance 12/31/2016	**10,655**	**595**	**52**	**83**	**11,385**
32	Balance 12/31/2015	9,376	833	138	298	10,644

The receivables that are less than three months overdue are mainly due to delays in payment on the balance sheet date.

15 · ACTUAL INCOME TAX

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

16 · OTHER RECEIVABLES AND ASSETS

	in € thousands	12/31/2016	12/31/2015
	Financial receivables from		
	– Third parties	437	415
	– Affiliated companies	0	0
	– Investment companies	72	0
	Other assets	5,637	5,055
33		**6,147**	**5,470**

All other receivables and assets are due within one year.

Financial receivables from third parties include valuation allowances totaling €5,843 thousand (previous year €5,886 thousand), from affiliated companies €19 thousand (previous year €16 thousand) and investment companies €577 thousand (previous year: €577 thousand).

17 · SECURITIES

The disclosure relates to stock exchange listed shares, valued at the market price on the balance sheet date.

18 · CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents amounting to €560 thousand (previous year: €239 thousand) are held by MEHLER ENGINEERED PRODUCTS (Suzhou) Co. Ltd., China, and are subject to the local foreign exchange restrictions. They are therefore not available for all transactions.

19 · NON-CURRENT ASSETS HELD FOR SALE

This item includes assets that are to be sold in the following financial year.

The disclosure for the financial year concerns in the amount of €100 thousand the property in Kalefeld, as the intention to sell it remains. The property in Klettgau with a carrying amount of €929 thousand is also held for sale.

The sale of the reported assets is most likely to take place in the 2017 financial year.

The disclosure for the previous financial year concerned in the amount of €348 thousand the property in Kalefeld, which still intends to be sold. The property in Karlsbad with a carrying amount of €795 thousand and a property in South Africa with a carrying amount of €1,523 thousand are also held for sale.

20 · EQUITY AND RESERVES

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

Subscribed capital

The subscribed capital amounts to €17,223,559.60 (previous year: €17,223,559.60) and is divided into 6,624,446 (previous year: 6,624,446) bearer shares.

Capital reserve

The capital reserve includes the premium paid on the issue of shares beyond the nominal amount.

Reserves

In addition to being included in the reserves of KAP-Beteiligungs-AG, the Group's reserves also include the offsetting of differences on the assets side and liabilities side from the capital consolidation of fully consolidated subsidiaries, which in accordance with German commercial law was carried out before January 1, 2004 and maintained for financial reporting under IFRS.

Other comprehensive income includes the differences from the foreign currency conversion of foreign separate financial statement recognized directly in equity, the fair value of financial assets available for sale, the effects of the valuation from the first-time application of IAS/IFRS recognized directly in equity, the changes in the market valuation of cash flow hedges and actuarial gains and losses. In addition, effects from the adjustment of errors from previous periods and the early application of standards are also shown under reserves.

CONSOLIDATED BALANCE SHEET RESULT

The consolidated balance sheet result includes the results of the companies included in the consolidated financial statements achieved in past periods less distributions to the shareholders of KAP-Beteiligungs-AG.

Minority Interests

The minority interests comprise the other shareholders' shares in assets, liabilities and annual results, the pro rata differences arising from currency translation of the annual financial statements of foreign subsidiaries recognized directly in equity, as well as other items other comprehensive income recognized under reserves.

Capital management

Our goal is to secure long-term business continuity and generate appropriate returns for shareholders. This also includes ensuring that sufficient liquidity and access to the capital market are available at all times. The management of the capital structure takes account of the overall economic conditions as well as the risks arising from the underlying assets.

We aim to achieve these goals by optimizing the capital structure through equity measures, acquisitions and divestments, restructuring measures and the reduction of financial debt.

Capital management in the strict sense comprises equity and reserves, as well as non-current and current financial liabilities.

21 · PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The balance sheet disclosure is made up as follows:

in € thousands	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
Pension obligations	20,667	19,332	20,218	18,450	18,461
Similar obligations	292	205	252	191	247
	20,958	**19,537**	**20,470**	**18,641**	**18,708**

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Pension obligations

The company pension provision consists of defined-contribution and defined-benefit plans. In the case of the defined-benefit pension plans, there is an obligation pay the benefits promised. The actuarial risk and the investment risk remain with the company. Provisions are made for the obligations from entitlements and current benefits to eligible and active as well as former employees and their surviving relatives, reserves are provided. The benefits are based on individual commitments, which differ from one country to another and one company to another. As a rule, they are measured according to the length of employment and remuneration of employees.

In the case of the defined-contribution pension plans there are no further obligations beyond the payment of contributions to external pension providers. Abroad, this type of pension plan, financed by external pension providers, exists mainly in South Africa. The amount of the obligations is calculated using actuarial methods.

Composition of pension obligations

in € thousands	2016	2015	2014	2013	2012
Present value of pension obligations	22,375	21,004	21,843	20,126	20,125
Fair value of plan assets	-1,708	-1,672	-1,626	-1,676	-1,664
Pension obligation as at December 31	**20,667**	**19,332**	**20,218**	**18,450**	**18,461**

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Development of the pension provisions

in € thousands	2016	2015	2014	2013	2012
Balance January 1	**19,332**	**20,218**	**18,450**	**18,461**	**16,020**
Pensions paid	-1,036	-1,064	-1,056	-1,085	-1,115
Allocation	2,467	178	3,441	1,077	3,556
Addition	-	-	-	-	-
Disposal	-96	-	-617	-	-
Reversal	-	-	-	-3	-
As of December 31	**20,667**	**19,332**	**20,218**	**18,450**	**18,461**
– of which pension obligations	22,375	21,004	21,843	20,126	20,125
– of which assets	-1,708	-1,672	-1,626	-1,676	-1,664

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Pension obligations are due in the amount of €1,115 thousand (previous year: €1,061 thousand) within one year. €19,149 thousand (previous year: €17,878 thousand) will be due in more than one year but within five years' time. €403 thousand (previous year: €393 thousand) will be due in more than five years.

Pension expenses

in € thousands	2016	2015	2014	2013	2012
Current service cost	43	48	83	87	530
Interest cost	374	394	562	626	716
Deferred compensation	-	-	-	-	-
Past service cost	-	-	12	0	-
Components recognized through profit and loss	**417**	**442**	**656**	**714**	**1,245**
Allocation of actuarial gains (-)/losses (+) recognized directly in equity					
– from changes in financial assumptions	2,102	-	2,727	597	2,175
– from changes in demographic assumptions	-	-	-	-	-
– from adjustments based on experience	-26	-230	237	-78	291
Actuarial gains (-)/losses (+) from plan assets	-20	-34	-8	-6	8
Impact of asset limitation	-7	1	-172	-152	-163
Components recognized directly in equity	**2,050**	**-263**	**2,784**	**360**	**2,311**
	2,467	**178**	**3,441**	**1,074**	**3,556**
– of which allocation	2,467	178	3,441	1,077	3,556
– of which reversal	-	-	-	-3	-

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

The actual income from plan assets in the reporting year amounted to €53 thousand (previous year: €66 thousand).

Significant calculation basis and assumptions for valuation:

in %	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
Actuarial interest rate	1.25	2.00	2.00	3.25	3.25
Expected return from plan assets	3.00	3.00	3.00	3.00	3.00
Future salary increases	0.00	0.00	0.00	0.00	0.00
Future pension increases	1.75	1.75	1.75	2.00	2.00

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in € thousands	2016 Increase of 0.5% points	2016 Decrease of 0.5% points	2015 Increase of 0.5% points	2015 Decrease of 0.5% points
Present value of the obligation	20,935	23,989	19,702	22,444
Interest cost	356	176	479	329
Service cost	21	26	40	47

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Similar obligations

Similar obligations include the cost of medical care for employees in South Africa after retirement. These obligations were present on the balance sheet date of KAP Textile Holdings SA Limited.

The following assumptions were used for the calculation:

in %	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
Actuarial interest rate	8.76	7.37	7.37	7.37	7.37
Increase in healthcare costs	7.56	6.18	6.18	6.18	6.18

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22 · FINANCIAL LIABILITIES

The financial liabilities include all interest-bearing liabilities of the KAP Group broken down by their maturity.

in € thousands	12/31/2016	Of which remaining term > 1 Jahr	12/31/2015	Of which remaining term > 1 Jahr
Banks	85,976	25,750	93,147	34,450
Financial leasing	545	-	1,573	545
Affiliated companies	17	-	15	-
Investment companies	11	-	25	-
Third parties	1,368	1,220	1,514	1,388
	87,918	**26,970**	**96,274**	**36,383**

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The effective interest rates of the liabilities to banks range between 1.37% and 13.60% (previous year: 1.38% and 9.75%).

The financing by some banks is linked to an equity ratio of 30%. The ratio of net financial debt and EBITDA may not exceed 2.75.

23 · OTHER NON-CURRENT LIABILITIES

In addition to liabilities with a maturity of more than one year, the item includes obligations which are specific in terms of entry and amount but with a maturity of more than 12 months in the future. A discount is applied if the obligations are non-interest-bearing.

24 · OTHER PROVISIONS

in € thousands	01/01/2016	Currency difference	Utilization	Addition	Reversal	12/31/2016
Personnel	7,313	-22	-5,669	6,256	-361	7,518
Complaints and guaranties	15,152	-6	-704	1,789	-1,470	14,761
Restructuring measures	261	-	-48	-	-132	81
Impending losses from pending transactions	1,993	-1	-156	275	-295	1,816
Other provisions	2,398	0	-1,679	125	-16	828
	27,117	**-29**	**-8,255**	**8,445**	**-2,274**	**25,004**

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Personnel provisions mainly include bonuses, severance payments, flexi-time balances and holiday entitlements.

Provisions for impending losses from pending transactions were made if none of the contracting parties met their obligations completely.

A large number of risks and obligations from the operating business are shown under other provisions.

Other provisions amounting to €7,554 thousand (previous year: €8,621 thousand) have a term of more than one year. The interest expense amounts to €24 thousand (previous year: €18 thousand).

25 · TRADE PAYABLES

Trade payables comprise outstanding obligations arising from the delivery of goods and services, all of which are due within one year.

26 · ACTUAL INCOME TAX

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

27 · OTHER LIABILITIES

in € thousands	2016	12/31/2015
Advance payments received on orders	1,267	787
Other liabilities	6,842	9,054
41	**8,109**	**9,842**

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

Consolidated Statement of Income

28 · SALES

The breakdown of revenue by product group and geographical area is shown in the segment reporting on pages 130 to 133.

29 · OTHER OPERATING INCOME

in € thousands	2016	2015
Disposal of fixed assets	1,482	742
Foreign currency gains	855	649
Reversal of provisions	1,549	1,883
Reversal of valuation allowances on receivables	189	416
Rental income from investment property	4,400	4,142
Other income	3,475	3,816
	11,951	**11,649**

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Other income mainly consists of rental income of €747 thousand (previous year: €705 thousand), income from refund of expenses of €134 thousand (previous year: €162 thousand) and insurance compensation of €215 thousand (previous year: €106 thousand) as well as income relating to other periods in the amount of €771 thousand (previous year: €503 thousand),

30 · COST OF MATERIALS

in € thousands	2016	2015
Raw materials and supplies	187,283	187,146
Purchased services	31,127	32,499
	218,410	**219,645**

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31 · PERSONNEL EXPENSES

in € thousands	2016	2015
Wages and salaries	74,946	71,798
Social security contributions and expenses for pension schemes	15,179	14,817
	90,125	**86,614**

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Social security contributions and expenses for pension schemes include expenses for statutory pension insurance in the amount of €4,384 thousand (previous year: €4,362 thousand) and defined contribution plans totaling €609 thousand (previous year: €619 thousand), On average, the Group employed:

	2016	2015
Wage earners	1,656	1,665
Salary earners	870	876
	2,526	**2,541**
Trainees	90	83
45	**2,616**	**2,624**

32 · DEPRECIATION AND AMORTIZATION

in € thousands	2016	2015
Intangible assets	627	637
Property, plant and equipment	20,048	21,476
Investment property	546	499
46	**21,221**	**22,611**

Depreciation and amortization includes unscheduled depreciation amounting to €722 thousand (previous year: €870 thousand). Of this amount, the assets held for sale account for €418 thousand (previous year: €870 thousand).

33 · OTHER OPERATING EXPENSES

in € thousands	2016	2015
Maintenance	12,205	12,071
Outgoing freight	7,263	7,334
Additions to valuation allowances on trade receivables	353	583
Commissions	1,376	1,529
Insurances	1,289	1,299
Bad debt losses	9	84
Legal and consulting fees	4,329	3,867
Packaging material	3,164	3,083
Rent and leasing	1,214	1,585
Foreign currency transaction losses	1,176	958
Additions to provisions	102	1,022
Disposal of fixed assets	262	487
Other taxes	1,033	1,265
Investment property expenses	879	877
Complaints and guarantees	1,877	914
Other expenses	13,128	12,843
47	**49,659**	**49,800**

Other expenses include a variety of amounts related to operational, management and sales activities.

34 · INVESTMENT INCOME

in € thousands	2016	2015
48	-	**-23**

35 · INTEREST RESULT

in € thousands	2016	2015
Interest income		
Third parties	114	118
Investments	73	70
Other	165	39
Interest expense		
Third parties	-4,497	-3,971
Investments	0	0
Compounding of interest on pension obligations	-374	-394
Financial leasing	-48	-96
Other	-150	-1,218
49	**-4,717**	**-5,451**

36 · OTHER FINANCIAL RESULT

in € thousands	2016	2015
50	**7,248**	**4,219**

Other financial income includes gains and losses from financing activities, from hedging transactions as well as expenses and income from other financial assets and liabilities, which do not result from the operating business and do not represent any income from investment or net interest income.

In the reporting year, the result is essentially influenced by dividend income of €1,319 thousand (previous year: €2,076 thousand), exchange rate losses of €346 thousand (previous year: €1,642 thousand) as well as gains from hedging transactions in the amount of €1,657 thousand (previous year: €1,187 thousand). In addition, depreciation on securities amounting to €2,208 thousand (previous year: €519 thousand) are recorded here. In the reporting year, income from the disposal of securities was €6,796 thousand (previous year: €7,514 thousand). For this purpose, €3,580 thousand (previous year: €7,408 thousand) from the reserve for financial assets available for sale was reclassified in the consolidated income statement.

37 · INCOME TAXES

in € thousands	2016	2015
Actual income tax	-5,864	-5,056
Deferred taxes - Temporary valuation differences	-704	-1,592
Deferred taxes - Tax loss carryforwards	-1,614	-2,683
51	**-8,182**	**-9,331**

Deferred tax assets and liabilities are calculated using a tax rate of 30% for domestic companies. This includes, in addition to corporation tax rate, the solidarity surcharge on corporation tax of 5.5%, as well as the weighted tax rate for commercial income.

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

In the case of foreign subsidiaries, the respective applicable or anticipated income tax rates are used. They range between 19% (previous year: 19%) and 38% (previous year: 38%).

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

in € thousands	2016	2015
Consolidated annual result before income taxes	20,934	10,854
KAP Group income tax rate	30%	30%
Expected income taxes	**-6,280**	**-3,256**
Variances due to different tax rates	655	188
Tax reductions (+)/-increases (-) due to tax free income/ non-deductible expenses	-2,848	-980
Tax on previous years	46	-2,740
Changes in valuation allowances on deferred tax assets	1,597	1,130
Other effects	-1,352	-3,673
Income tax according to the income statement	**-8,182**	**-9,331**
52 **Effective tax rate**	**39%**	**86%**

Deferred taxes in the amount of €615 thousand (previous year: €-79 thousand) were, due to the actuarial profits and losses being recognized directly in equity, also recognized directly in equity under other comprehensive income.

38 · RESULT OF DISCONTINUED OPERATIONS

The result of discontinued operations concerns the reduction in liability obligations. We agreed with the acquirer of the MVS Group, which was sold in the 2014 financial year, to assume the share of any risks arising from warranties and price tests for sales up to the date of the disposal. The amount is attributable to the shareholders of KAP-Beteiligungs-AG.

39 · PROFIT SHARE OF MINORITY INTERESTS

The item includes shareholders of various subsidiaries in addition to KAP-Beteiligungs-AG. The profit share contains the compensation obligation from a profit-and-loss-transfer agreement.

40 · EARNINGS PER SHARE

Earnings per share are calculated as the quotient of the consolidated annual result of KAP-Beteiligungs-AG shareholders and the weighted average number of the shares in circulation during the financial year.

in € thousands	31.12.2016	31.12.2015
Consolidated annual result of KAP-Beteiligungs-AG shareholders (in € thousands)	12,080	921
Weighted average number of shares (in 1,000)	6,624	6,624
Earnings per share (in €)	**1.82**	**0.14**
– of which from continued operations	-	-
– of which from discontinued operations	-	-

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

Other disclosures

41 · EXPENSES FOR RESEARCH AND DEVELOPMENT

Expenses for research and development in the reporting year amounted to €567 thousand (previous year: €776 thousand).

42 · CONTINGENT LIABILITIES

The contingent liabilities below could result in the outflow of resources with which economic benefits are associated. The valuation is carried out at the nominal value.

in € thousands	31.12.2016	31.12.2015
Sureties	**172**	**344**
– of which affiliated companies	-	-
Guarantees	**416**	**10,689**
– of which affiliated companies	-	-
Security	**-**	**-**
– of which affiliated companies	-	-
Total	**588**	**11,033**
– of which affiliated companies	-	-

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43 · OTHER FINANCIAL OBLIGATIONS

in € thousands	31.12.2016	31.12.2015
Intangible assets	**-**	**-**
– of which affiliated companies	-	-
Property, plant and equipment	**3,550**	**4,316**
– of which affiliated companies	-	-
Investment property	**50**	**120**
– of which affiliated companies	-	-
Obligations from non-cancelable rental and lease agreements	**1,765**	**1,497**
– of which affiliated companies	-	-
Total	**5,365**	**5,933**
– of which affiliated companies	-	-

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The sum of future payments from non-cancelable rental and lease agreements (operating leases) is made up as follows:

in € thousands	31.12.2016	31.12.2015
Future minimum lease payments		
Due within one year	841	807
Due between one and five years	904	671
Due after more than five years	20	19
Total	**1,765**	**1,497**
– of which affiliated companies	-	-

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As a rule, favorable purchase options exist for the respective assets that can be exercised if necessary, with the exception of the real estate leases. There are neither contingency payments nor rent payments relating to subleases.

44 · FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the financial instruments are allocated to the valuation categories as follows:

Balance sheet items in € thousands	Valuation category	Carrying amount 12/31/2016	Amortized cost	Fair value recognized directly in equity
ASSETS				
Loans to companies with a participating interest	Loans and receivables	1,182	1,182	-
Trade receivables	Loans and receivables	56,668	56,668	-
Other receivables and assets	Loans and receivables	6,147	6,147	-
Securities	Available for sale	18,624	-	18,624
Cash and cash equivalents		4,138	-	-
LIABILITIES				
Other non-current liabilities	Financial liabilities	607	607	-
Financial liabilities	Financial liabilities	87,918	87,918	-
Trade payables	Financial liabilities	21,937	21,937	-
Other liabilities	Financial liabilities	6,373	6,373	-

The carrying amounts are reasonable approximations of the fair values.

Fair value recognized through profit or loss	Fair value	Carrying amount	Amortized cost	Fair value recognized directly in equity	Fair value recognized through profit or loss	Fair value
	12/31/2016	12/31/2015				12/31/2015
-	1,182	1,182	1,182	-	-	1,182
-	56,668	52,755	52,755	-	-	52,755
-	6,147	5,470	5,470	-	-	5,470
-	18,624	34,188	-	34,188	-	34,188
-	4,138	2,738	-	-	-	2,738
-	607	257	257	-	-	257
-	87,918	96,274	96,274	-	-	96,274
-	21,937	18,123	18,123	-	-	18,123
-	6,373	8,717	7,059	-	1,658	8,717

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Gains and losses on financial instruments

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

in € thousands	2016	2015
Financial assets available for sale		
Gains/losses recognized in equity (-)	-6,877	-2,456
Income from dividends	1,319	2,076
Income from the sale of securities	6,796	7,514
Losses recognized in the income statement (-)	-2,208	-519
Loans and receivables		
Interest income	187	188
Impairments (-)/reversals	-130	-4,574
Financial liabilities		
Interest expenses	4,545	4,067
Exchange rate gains and losses (-) from financing activities	-346	-1,642

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The securities classified as financial assets available for sale are valued on the basis of prices quoted on active markets for identical assets.

Derivative financial instruments are valued on the basis of market data which is not prices quoted on active markets (value hierarchy level 2) that can be observed directly or indirectly for the derivative financial instruments.

Credit and default risk

The amount of the maximum risk exposure for financial assets at the balance sheet date corresponds to the amounts specified in the balance sheet if the contracting parties cannot meet their payment obligations.

Credit information and references are collected to minimize default risks. For trade receivables, commercially credit insurance is partially in place. In the case of doubt about creditworthiness, appropriate valuation allowances are made.

In the case of overdue, non-impaired trade receivables, shown in figure 14, there is no indication that the debtors will not meet their payment obligations on the balance sheet date.

Liquidity risk

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

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

in € thousands 12/31/2016	Due within one year	Due between one and five years	Due after more than five years	Total
Other non-current liabilities	-	257	350	607
Banks	60,226	15,750	10,000	85,976
Finance lease	545	-	-	545
Affiliated companies	17	-	-	17
Investment companies	11	-	-	11
Third parties	148	1,220	-	1,368
Trade payables	21,937	-	-	21,937
Other liabilities	8,109	-	-	8,109
59	**90,994**	**17,227**	**10,350**	**118,571**

in € thousands 12/31/2015	Due within one year	Due between one and five years	Due after more than five years	Total
Other non-current liabilities	-	257	-	257
Banks	58,697	34,450	-	93,147
Finance lease	1,029	545	-	1,573
Affiliated companies	15	-	-	15
Investment companies	25	-	-	25
Third parties	126	1,388	-	1,514
Trade payables	18,123	-	-	18,123
Other liabilities	9,842	-	-	9,842
60	**87,856**	**36,640**	**-**	**124,496**

Market risks

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

Hedging against these risks is generally achieved by means of closed items in which values or cash flows from original financial instruments are offset. To further reduce the risk, forward transactions are concluded in the form of swaps as required.

Currency risk

As a globally operating group, foreign exchange risks arise from various sales and procurement markets from the perspective of the respective national companies of the KAP-Beteiligung-AG.

In addition, there are occasionally risks associated with the financing activities of the foreign companies with KAP-Beteiligung-AG. We consider these risks to be manageable compared to the costs incurred in concluding hedging transactions and therefore largely forgo hedging against exchange rate fluctuations.

Key foreign currency items as of December 31, 2016:

	U.S. Dollar		British Pound		Russian Ruble	
in thousands	USD	EUR	GBP	EUR	RUB	EUR
ASSETS						
Trade receivables	2,273	2,126	171	201	709	11
Financial receivables	6,974	5,732	-	-	-	-
Other assets	-	-	-	-	-	-
Cash and cash equivalents	145	137	38	44	322	5
Total	**9,392**	**7,995**	**209**	**245**	**1,031**	**16**
LIABILITIES						
Financial liabilities	520	493	-	-	-	-
Trade payables	317	301	0	0	-	-
Total	**837**	**794**	**0**	**0**	**-**	**-**
Sales	**10,862**	**9,791**	**2,537**	**2,995**	**7,202**	**98**

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Key foreign currency items as of December 31, 2015:

	U.S. Dollar		British Pound		Russian Ruble	
in thousands	USD	EUR	GBP	EUR	RUB	EUR
ASSETS						
Trade receivables	2,285	2,098	362	489	590	7
Financial receivables	6,975	5,733	-	-	-	-
Other assets	-	-	-	-	-	-
Cash and cash equivalents	220	202	21	28	222	3
Total	**9,479**	**8,032**	**383**	**517**	**812**	**10**
LIABILITIES						
Financial liabilities	-	-	-	-	-	-
Trade payables	353	323	0	0	-	-
Total	**353**	**323**	**0**	**0**	**-**	**-**
Sales	**10,003**	**9,012**	**2,854**	**3,799**	**11,248**	**166**

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Our foreign subsidiaries also carry out transactions in euros. These 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 large customers. A concentration of risks results when a customer accounts for 10% of the Group's sales.

In the 2016 financial year more than 10% of revenue was attributable to two (previous year: one) customers.

Interest rate risk

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

By means of a mixture of maturities for variable-rate loans we also try to profit from a low market-interest environment. This provides us with the necessary flexibility to react quickly to market fluctuations and to minimize our interest cover. In the 2016 financial year as well as the previous year, interest rate risks were rated as negligible as all loans were to be qualified as fixed-interest.

45 · DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

The KAP Group also uses derivatives to limit interest rate and currency risks arising from business and financing activities. They also reduce interest rate and currency risks from booked underlying transactions and additionally, in the case of currency risks, risks from planned delivery and service transactions. Forward exchange futures are used to a limited extent to hedge against currency risks. Interest rate swaps are used to reduce the impact of interest rate changes on the financing costs of financial liabilities.

Contracting parties for the conclusion of such contracts are exclusively domestic and foreign banks with impeccable credit ratings. As a result, the default risks due to the non-fulfillment of payment obligations by contractual partners are reduced to a minimum.

In the context of hedging relationships, forward exchange futures are used to a small extent to hedge an already recorded underlying transaction (fair value hedge) or planned transactions (cash flow hedge). Interest rate swaps are acquired to hedge risks arising from fluctuating cash flows due to variable-interest rate liabilities (cash flow hedges).

The nominal volumes of the derivative financial instruments correspond to the transaction amounts and the values of the underlying transactions.

The development is as follows:

		Fair values			
	Nominal amount	Total	< 1 year	> 1 y. < 5 y.	> 5 years
12/31/2016					
LIABILITIES					
Interest rate swaps	-	-	-	-	-
12/31/2015					
LIABILITIES					
63 Interest rate swaps	40,000	1,658	1,658	-	-

The reported fair values correspond to the price at which third parties would assume the rights or obligations arising from the financial instruments. The fair values are the daily values of the derivative financial instruments, without taking into account opposing value developments from the underlying transactions.

Fair values are determined on the basis of quoted market prices or by mathematical calculations based on market-based models.

46 · EVENTS AFTER THE BALANCE SHEET DATE

With effect from January 2, 2017, the remaining 120,000 shares of Allianz SE were sold. This resulted in proceeds of €18.8 million and earnings of €10.9 million.

47 · CONSOLIDATED STATEMENT OF CASH FLOWS

The statement of cash flows shows cash flows from business activities, from investing and financing activities separately. Changes in the cash and cash equivalents due to exchange rates, the consolidated group and valuations are eliminated and reported separately.

Cash and cash equivalents comprise the liquid assets reported on the balance sheet 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 and financing activities.

Liquid assets decreased by €4 thousand (previous year: €88 thousand) as a result of exchange rate changes (increased in previous year). Cash flow from operating activities includes:

in € thousands	2016	2015
Interest		
Interest paid (-)	-4,672	-4,110
Interest received	351	173
	-4,321	**-3,937**
Income taxes		
Paid income tax (-)	-7,936	-2,892
Refunded income tax	1,978	1,904
	-5,958	**-988**
Dividends received	**1,319**	**2,076**

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48 · SEGMENT REPORTING

Due to the established internal financial reporting by the KAP Group, the primary reporting format is broken down by business segment and the secondary reporting format by region.

The following are defined as business segments:

- **engineered products;**
- **automotive components;**
- **all other segments**.

Engineered products and **automotive components** each represent specific product groups.

The **engineered products** segment develops, manufactures and markets a wide range of special products made from technical yarns and fabrics used, for example, in the automotive industry as reinforcing support for the tire industry, for roof sarking membranes or reinforced plaster or road construction.

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

In order to strengthen the operational character of the segments, in addition to KAP-Beteiligungs-AG, the holding companies KAP Textile Holdings SA Limited, MEHLER Aktiengesellschaft, KAP Beteiligungs Inc., GM Tec Industries Holding GmbH and STÖHR & Co. Aktiengesellschaft i. L ., Schäfflerbachstraße Grundbesitz GmbH, Mehler Grundstücksverwaltungs GmbH and GbR MEHLER AG/ DAUN & Cie. AG are allocated to the segment all other segments.

The reconciliations concerning the segment values of assets, liabilities and income with the corresponding consolidated values are shown on page 133 in the consolidated notes.

The reclassifications to non-current assets held for sale and discontinued business areas, as well as liabilities relating to non-current assets held for sale and discontinued business areas, concern the segment **all other segments** in the 2016 financial year. In the previous year, they concerned the segments **all other segments** and **automotive components**.

Primary reporting level

The accounting and valuation methods used correspond to those of the consolidated financial statements.

Intragroup sales are settled at standard market prices and are generally equivalent to prices used in third party sales (“at arm’s length principle”).

In the **engineered products** segment, revenue with one customer amounted to €42,207 thousand (previous year €39,257 thousand).

In the **automotive components** segment, sales of €46,858 thousand (previous year €48,600 thousand), €14,914 thousand (previous year €16,034 thousand) and €11,342 thousand (previous year €13,111 thousand) were achieved with three customers.

All other segments generated revenue of €3,375 thousand with one customer each.

The segment result is defined as the operating result and corresponds to the operating result at Group level.

Segment assets include intangible assets, plant, property and equipment, inventories, trade receivables, other assets, cash and cash equivalents and non-current assets held for sale.

Segment liabilities include other non-current liabilities, other provisions, trade payables, other liabilities and liabilities associated with non-current assets held for sale.

The segment cash flow is defined as the cash flow from current business activities of the respective segment, adjusted for interest paid and income taxes.

The reconciliation to the operating result at Group level includes the elimination of intragroup interim results, receivables and liabilities, as well as expenses and income not attributable to the business segments.

The **engineered products** segment includes unscheduled depreciation of €281 thousand (previous year €870 thousand).

The **automotive components** segment includes unscheduled depreciation of €23 thousand (previous year €0 thousand).

The **all other segments** segment includes unscheduled depreciation of €418 thousand (previous year €0 thousand).

Secondary reporting level

The segment revenues with external customers were allocated on the basis of the geographic locations of the customers. The total carrying amount of segment assets and investments were determined by the geographic location of the respective unit. Investments comprise the acquisition costs for intangible assets and plant, property and equipment.

Segment reporting by business area

from January 1 to December 31, 2016

	engineered products		automotive components	
in € thousands	2016	2015	2016	2015
Sales with third parties	282,003	264,484	104,876	106,633
Sales with other segments	299	1,332	-	-
Sales	**282,302**	**265,816**	**104,876**	**106,633**
Segment result[1, 2]	16,538	8,037	2,589	1,533
Interest income	1,130	1,212	178	257
Interest expenses	4,914	5,069	1,865	2,038
Income taxes	1,880	1,869	356	20
Segment assets	185,155	185,897	78,333	72,560
Segment liabilities	29,548	28,274	11,366	8,569
Investments[3]	13,761	8,392	10,933	6,991
Scheduled depreciation and amortization	12,225	13,227	7,005	7,097
Segment cash flow[4]	31,410	18,569	8,970	5,251
Employees 12/31	1,580	1,559	985	1,008

Due to the presentation of figures in € thousands, rounding differences may occur in the summation.

[1] The segment result is defined as the operating result.
[2] The segment result of engineered products, automotive components and all other segments includes unscheduled depreciation amounting to €281 thousand (previous year €870 thousand), €23 thousand (previous year €0) and €418 thousand (previous year €0 thousand).
[3] Concerns intangible assets and plant, property and equipment.
[4] Not including interest and income taxes.

all other segments		Consolidations		Group	
2016	2015	2016	2015	2016	2015
-	3,375	-1,097	-	385,782	374,492
-	-	-299	-1,332	-	-
-	**3,375**	**-1,396**	**-1,332**	**385,782**	**374,492**
-4,013	-307	2,872	2,772	17,987	12,035
5,405	5,646	-6,525	-6,927	187	188
4,267	3,813	-6,526	-6,930	4,521	3,989
5,946	7,442	-	-	8,182	9,331
16,026	15,795	-965	-887	278,549	273,365
16,092	18,779	-1,349	-1,268	55,657	54,354
414	577	0	-	25,109	15,960
723	919	546	499	20,500	21,741
-4,118	4,392	3,147	-896	39,408	27,316
32	30	-	-	2,597	2,597

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Segment reporting by geographic area

from January 1 to December 31, 2016

	Sales with third parties[1]		Segment assets[2]		Investments[3]	
in € thousands	2016	2015	2016	2015	2016	2015
Germany	176,255	172,768	168,176	163,117	17.848	10,835
Rest of Europe	135,561	130,803	73,952	73,164	7,610	4,798
North/South America	40,832	40,705	16,454	13,946	1,099	43
Asia	30,785	28,524	33,828	33,892	2,259	3,185
Other countries	2,349	1,692	141	1,655	-	17
Consolidations	-	-	-14,002	-12,409	-3,708	-2,917
KAP Group	**385,782**	**374,492**	**278,549**	**273,365**	**25,109**	**15,960**

Due to the presentation of figures in € thousands, rounding differences may occur in the summation.

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[1] Segment sales with external customers by geographical area.
[2] Total carrying amount of the production sites.
[3] Acquisition/production costs of the manufacturing sites.

Additional information to segment reporting

in € thousands	2016	2015
Segment assets	**278,549**	**273,365**
Investment property	5,741	7,039
Financial assets accounted for using the equity method	2,010	0
Other financial assets	1,232	1,220
Deferred taxes	6,743	8,499
Actual income taxes	1,625	2,299
Financial receivables	509	415
Securities	18,624	34,188
KAP Group assets	**315,034**	**327,025**
Segment liabilities	**55,657**	**54,354**
Provisions for pensions and similar obligations	20,958	19,537
Non-current financial liabilities	26,970	36,383
Deferred tax liabilities	733	784
Current financial liabilities	60,948	59,892
Actual income taxes	2,475	3,606
Liabilities from hedging transactions	-	985
KAP Group liabilities	**167,741**	**175,540**
Segment result	**17,987**	**12,035**
Investment income	-	-23
Net interest income	-4,717	-5,451
Other financial income	7,248	4,219
Income taxes	-8,182	-9,331
Result from discontinued operations	416	74
KAP Group consolidated annual result	**12,751**	**1,523**

49 · RELATED PARTY TRANSACTIONS

Companies which directly or indirectly have control over, or are controlled by KAP-Beteiligung-AG are regarded as related, unless these companies are included in the consolidated financial statements of KAP-Beteiligung-AG on the balance sheet date.

Further, associated companies and joint ventures are included, which can be influenced by the company or are managed jointly.

The relationships with these companies are shown in the list of shareholdings, which is attached on pages 140 to 141.

DAUN & Cie. Aktiengesellschaft, Rastede, informed us in writing on December 20, 2016, in accordance with § 21 para. 1 of the German Securities Trading Act (WpHG) that its share of voting rights in our company fell below the threshold of 3% on December 19, 2016 and since that date accounts for 1.26% (83,468 voting rights).

Mr. Claas E. Daun, Rastede, notified us in writing on December 20, 2016, in accordance with §§ 21 para. 1 in conjunction with Article 22 para. 1 sentence 1 no. 1 WpHG that his voting interest in our company on December 19, 2016 had fallen below the threshold of 3% and has since this date amounted to 1.26% (83,468 voting rights). He is entitled to 1.26% (83,468 voting rights) in accordance with § 22 para. 1 sentence 1 no. 1 WpHG through the DAUN & Cie.Aktiengesellschaft, Rastede.

FM-Verwaltungsgesellschaft mbH, Stadtallendorf, informed us in writing on September 1, 2014, in accordance with § 21 para. 1 WpHG, that its voting interest in our company exceeded the threshold of 25% on September 1, 2014 and since that date amounts to 29.889% (1,980,000 voting rights).

SVR Capital Gmbh, Munich, informed us in writing on December 20, 2016, in accordance with § 21 para.1 WpHG, that its voting interest in our company had fallen below the threshold of 3% on December 19, 2016 and has since this date amounted to 0.00% (0 voting rights).

Mr. Daniel Anthony D'Aniello informed us in writing on November 18, 2016, that his share of instruments exceeded the threshold of 50% on November 17, 2016. This exceedance does not have any impact on the voting interest. In this notification, under position 4 – Name of shareholders with 3% or more voting rights – Project Diamant Bidco AG (previously Blitz F16-592 AG) was incorrectly stated. This was corrected accordingly in correspondence dated November 21. Further, Mr. Daniel Anthony D'Aniello informed us in writing on December 20, 2016, in accordance with § 21 para. 1 WpHG, that his voting interest in our company exceeded the threshold of 50% on December 19, 2016, and has since this date amounted to 53% (3,510,956 voting rights), and that the share of instruments had fallen below the threshold of 30% amounting to 29.89%. He is entitled to 33.3% (1,169,148 voting rights) in accordance with § 22 para. 1 sentence 1 no. 1 WpHG through Project Diamant Bidco AG, Frankfurt am Main.

Mr. Williams Elias Conway, Jr. informed us in writing on November 18, 2016, that his share of instruments exceeded the threshold of 50% on November 17, 2016. This exceedance does not have any impact on the voting interest. In this notification, under position 4 – Name of shareholders with 3% or more voting rights – Project Diamond Bidco AG (previously Blitz F 16-592 AG) was incorrectly stated. This was corrected accordingly in correspondence dated November 21. Further, Mr. William Elias Conway, Jr. notified us in writing on December 20, 2016, in accordance with § 21 para. 1 WpHG, that his voting interest exceeded the threshold of 50% on December 19, 2016 and has since this date amounted to 53% (3,510,956 voting rights), and that the share of instruments had fallen below the threshold of 30% amounting to 29.89%. He is entitled to 33.3% (1,169,148 voting rights) in accordance with § 22 para. 1 sentence 1 no. 1 WpHG through Project Diamant Bidco AG, Frankfurt am Main.

Mr. David Mark Rubenstein informed us in writing on November 18, 2016, that his share of instruments exceeded the threshold of 50% on November 17, 2016. This exceedance does not have any impact on the voting interest. In this notification, under position 4 – Name of shareholders with 3% or more voting rights – Project Diamond Bidco AG (previously Blitz F16-592 AG) was incorrectly stated. This was corrected accordingly in correspondence dated November 21. Further, Mr. David Mark Rubenstein informed us in writing on December 20, 2016, in accordance with § 21 para. 1 WpHG, that his voting interest exceeded the threshold of 50% on December 19, 2016 and has since this date amounted to 53% (3,510,956 voting rights), and that the share of instruments had fallen below the threshold of 30% amounting to 29.89%. He is entitled to 33.3% (1,169,148 voting rights) in accordance with § 22 para. 1 sentence 1 no. 1 WpHG through Project Diamant Bidco AG, Frankfurt am Main.

Project Diamant Bidco AG is the parent company of KAP-Beteiligungs-AG with headquarters in Frankfurt am Main.

KAP-Beteiligungs-Aktiengesellschaft is included in the consolidated financial statements of Project Diamant GmbH & Co. KG. This represents at the same time the smallest and the largest group of companies. The publication is made under HR A 49214 by the Frankfurt District Court.

The consolidated financial statements of KAP-Beteiligungs-AG are published in the Federal Gazette under no. HRB 5859 of the Fulda District Court.

Natural persons are considered to be related parties if they belong to the Management Board or the Supervisory Board of KAP-Beteiligungs-AG or are close family members of such persons. This also applies to persons who control, jointly manage or exercise a significant influence over other companies within the KAP Group, or who hold a significant voting interest, directly or indirectly, in such companies.

The mandates of the members of the Management Board and other members of the Supervisory Board of KAP-Beteiligungs-AG are listed under number 50.

The volumes of the transactions carried out during the financial year with related companies and the balances still outstanding on the balance sheet date are broken down as follows:

in € thousands	2016	2015
PARENT COMPANY		
Goods and services rendered to the parent company		
Sales transactions	-	-
Other income	-	-
Goods and services received by the parent company		
Interest expenses from loans received	-	-
AFFILIATED COMPANIES		
Goods and services rendered to affiliated companies		
Sales transactions	-	-
Interest income from loans granted	-	-
Other income	-	-
Goods and services received from affiliated companies		
Sourced raw materials, contract production	-	-
Interest expenses from loans received	-	-
Other expenses	-	-
Receivables from affiliated companies		
Financial receivables	-	0
Goods and services	-	-
Liabilities to affiliated companies		
Financial liabilities	17	15
Goods and services	-	-

in € thousands	2016	2015
ASSOCIATED COMPANIES		
Goods and services rendered to associated companies		
Sales transactions	13	10
Interest income from loans granted	73	70
Other income	-	7
Goods and services received from associated companies		
Sourced raw materials, contract production	357	-
Other expenses	2	-
Interest expenses from loans received	0	0
Receivables from associated companies		
Loans	1,182	1,182
Goods and services	-	9
Financial receivables	72	-
Liabilities to associated companies		
Financial liabilities	11	25
Goods and services	42	-
OTHER RELATED COMPANIES		
Goods and services rendered to other related companies		
Sales transactions	66	72
Other income	172	193
Goods and services received from other related companies		
Sourced raw materials, contract production	-	38
Interest expenses from loans received	0	0
Other expenses	56	67
Receivables from other related companies		
Goods and services	-	2
Liabilities against other related companies		
Financial liabilities	4	4
Goods and services	-	4

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Transactions with related parties are concluded under conditions customary among third parties.

50 · MANAGEMENT BOARD AND SUPERVISORY BOARD

Appointed members of the Management Board in the reporting period:

Dr. Stefan Geyler, Speaker
Dipl.-Physiker, Bonn, Germany

No further mandates

André Wehrhahn, Commercial Director
(from October 25, 2016)
Dipl.-Betriebswirt (FH), MBA, Fulda, Germany

No further mandates

Fried Möller, Dipl.-Kfm.
(until August 26, 2016)
Businessman, Stadtallendorf, Germany

Other mandates:
KAP Textile Holdings SA Ltd., Paarl, South Africa[1]

The remuneration of the Management Board in the financial year amounted to €809 thousand (previous year €767 thousand). The pension provisions include pension obligations for members of the Management Board of €1,469 thousand (previous year €1,304 thousand).

Appointed Supervisory Board members in the reporting period:

Ian Jackson, Chairman
(from December 17, 2016)
Managing Director of The Carlyle Group, Richmond, United Kingdom

Other mandates:
Klenk Holz AG, Oberrot, Germany[1]
CANAVERAL HOLDCO LIMITED, London, United Kingdom[2]
CANAVERAL BIDCO LIMITED, London, United Kingdom[2]

Fried Möller, Dipl.-Kfm.
(from August 26, 2016)
Stadtallendorf, Germany

Other mandates:
KAP Textile Holdings SA Ltd., Paarl, South Africa

Christian Schmitz
(from December 17, 2016)
Managing Director of The Carlyle Group, London, United Kingdom

No further mandates

Claas E. Daun, Dipl.-Kfm., Chairman
(until December 17, 2016)
Chairman of the Management Board of DAUN & Cie. Aktiengesellschaft, Rastede, Germany

Other mandates:
STÖHR & Co. Aktiengesellschaft i. L., Fulda (Chairman)[2]
MEHLER Aktiengesellschaft, Fulda (Chairman)[2]
Steinhoff International Holdings Ltd., Johannesburg, South Africa[1]
Zimbabwe Spinners & Weavers Ltd., Harare Zimbabwe[1]

Werner Ritzi
(from August 26, 2016 to December 17, 2016)
Business consultant, Mühlhausen-Ehingen, Germany

No further mandates

Michael Kranz
(until August 26, 2016)
Lawyer, tax consultant, Bad Zwischenahn, Germany

Other mandates:
STÖHR & Co. Aktiengesellschaft i. L., Fulda[2]
MEHLER Aktiengesellschaft, Fulda[2]

Uwe Stahmer
(until August 26, 2016)
Bad Zwischenahn, Germany

No other mandates

[1] Member of comparable domestic and foreign control committees.
[2] Member of domestic supervisory boards required by law.

The remuneration of the Supervisory Board during the financial year amounted to €18 thousand (previous year €18 thousand).

In accordance with §15a WpHG, persons who have managerial responsibilities at an issuer of shares must communicate their own transactions with the issuer or related financial instruments, in particular derivatives, to the issuer and the (German) Federal Financial Supervisory Authority within five working days. This obligation to communicate does not apply as long as the total of the transactions of a person with managerial responsibilities and persons closely connected with that person does not exceed €5,000 by the end of the calendar year.

KAP-Beteiligungs-AG will immediately announce these transactions on its website in accordance with §15a WpHG.

51 · INVESTMENTS OF KAP-BETEILIGUNGS-AG

Companies included in the consolidated financial statements	Location:	Share in capital in %
MEHLER AKTIENGESELLSCHAFT	Fulda	100.00[1]
CaPlast Kunststoffverarbeitungs GmbH	Nordkirchen-Capelle	100.00[1]
Caplast Ltd. STI	Ankara/Turkey	100.00
Convert Vliesveredelung GmbH	Detmold	26.00[2]
Convert Vliesveredelung GmbH & Co. KG	Waldfischbach-Burgalben	26.00[2]
ELBTAL OF AMERICA, INC.	Charlotte/USA	100.00
Elbtal Verwaltungs GmbH	Coswig	100.00
Elbtal Plastics GmbH & Co. KG	Coswig	100.00[1]
GbR MEHLER AG/DAUN & Cie. AG	Stadtallendorf	94.00
it-novum GmbH	Fulda	100.00[1]
KAP Beteiligungs Inc.	Martinsville/USA	100.00
Kirson Industrial Reinforcements GmbH	Neustadt/Danube	74.00[1]
Lückenhaus Technical Textiles, INC.	Martinsville/USA	100.00
MEHLER ENGINEERED PRODUCTS GMBH	Fulda	100.00[1]
MEHLER ENGINEERED PRODUCTS INDIA PRIVATE LIMITED	Bangalore/India	100.00
MEHLER ENGINEERED PRODUCTS, INC.	Martinsville/USA	100.00
MEHLER ENGINEERED PRODUCTS s.r.o.	Jilemnice/Czech Republic	100.00
MEHLER ENGINEERED PRODUCTS (Suzhou) Co., Ltd.	Suzhou/China	100.00
MEHLER Engineering und Service GmbH	Fulda	100.00[1]
Mehler Grundstücksverwaltungs GmbH	Fulda	100.00
NOW Contec GmbH	Detmold	26.00[2]
NOW Contec GmbH & Co. KG	Waldfischbach-Burgalben	26.00[2]
OLBO & MEHLER Tex GmbH & Co. KG	Fulda	100.00[1]
OLBO & MEHLER TEX PORTUGAL LDA.	Famalicao/Portugal	100.00
OLBO & MEHLER Verwaltungs-GmbH	Fulda	100.00
OLBO Industrietextilien GmbH	Fulda	100.00
Riflex Film AB	Ronneby/Sweden	100.00
Safe-Box Self Storage Mönchengladbach GmbH	Mönchengladbach	33.33[2]
Steinweg Kunststoffolien GmbH	Castrop-Rauxel	75.00[1]
Technolen technický textil s.r.o.	Hlinsko/Czech Republic	100.00
KAP Textile Holdings SA Limited	South Africa	100.00
UKW Properties (Pty.) Ltd.	South Africa	100.00
STÖHR & Co. Aktiengesellschaft i. L.	Fulda	73.63
Schäfflerbachstraße Grundbesitz GmbH	Fulda	93.62[1]

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[1] German companies which have exercised the exemption from the obligation to disclose the annual financial statements in accordance with the provisions of § 264 (3) HGB and § 264b HGB.
[2] Consolidated at equity.

Companies included in the consolidated financial statements	Location:	Share in capital in %
GM Tec Industries Holding GmbH	Pretzfeld	100,00[1]
BEBUSCH GmbH, Kunststoffspritzwerk	Haslach	100,00[1]
BEBUSCH Hungaria Müanyagfeldolgozó Kft.	Oroszlány/Hungary	100,00
Gear Motion GmbH	Ehingen	100,00[1]
Gear Motion Grundstücksverpachtungs GmbH & Co. KG	Ehingen	100,00[1]
Gear Motion Grundstücksverwaltungs GmbH	Ehingen	100,00
Geiger Fertigungstechnologie GmbH	Pretzfeld	94,00[1]
Minavto OOO	Logoisk/Belarus	99,99
Präzisionsteile Dresden GmbH & Co. KG	Dresden	100,00[1]
Präzisionsteile Dresden Verwaltungsgesellschaft mbH	Dresden	100,00

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Companies not included in the consolidated financial statements	Location:	Share in capital in %
through Mehler Aktiengesellschaft	Fulda	100,00
Kammgarnbüro GmbH	Frankfurt	28,48
Synteen & Lückenhaus India Private Limited	Bangalore/India	100,00
Ude technical products GmbH in Insolvenz	Kalefeld	100,00
through KAP Textile Holdings SA Limited	South Africa	100,00
Gelvenor Textiles (Pty.) Ltd.	South Africa	100,00
KAP International Brands (RSA) (Pty.) Ltd.	South Africa	100,00
Rags and Fabrics (Lesotho) (Pty.) Ltd.	Lesotho	100,00
through GM Tec Industries Holding GmbH	Pretzfeld	100,00
FMP Technology GmbH Fluid Measurements & Projects	Erlangen	24,90

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[1] German companies which have exercised the exemption from the obligation to disclose the annual financial statements in accordance with the provisions of § 264 (3) HGB and § 264b HGB.

52 · GERMAN CORPORATE GOVERNANCE CODE

The declarations prescribed by the § 161 AktG concerning compliance with the German Corporate Governance Code were issued by the Management Board and the Supervisory Board of KAP-Beteiligung-AG and made permanently available to the shareholders on the company's website (www.kap.de/unternehmen/corporate-governance/entsprechenserklaerungen).

53 · GROUP AUDITORS' FEES

The fees for the auditors of the consolidated financial statements recognized as expense are comprised as follows:

in € thousands	2016	2015
Audit of financial statements	69	82
	69	**82**

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54 · RECOMMENDATION FOR THE ADOPTION OF THE ANNUAL FINANCIAL STATEMENTS AND APPROPRIATION OF THE BALANCE SHEET PROFIT

The Management Board proposes that the annual financial statements of KAP-Beteiligung-AG be adopted, in accordance with the provisions of the German Commercial Code, as showing a balance sheet profit of €21,411,351.86.

In addition, the Annual General Meeting on July 7, 2017 is expected to propose the distribution of a dividend from the balance sheet profit of €13,248,892.00 (previous year €6,624,446.00) and the remaining balance sheet profit of €8,162,459.86 to be carried forward to the new account. This equates to a dividend of €2.00 (previous year €1.00) per share.

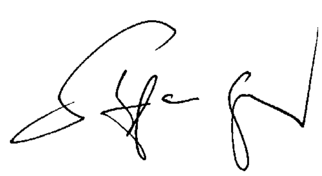
On the basis of the resolution of the Annual General Meeting, €6,624,446.00 (previous year €66,244,460.00) was distributed as a dividend in the 2016 financial year. This equates to a dividend of €1.00 (previous year €10.00) per share.

55 · DECLARATION BY THE MANAGEMENT BOARD

The consolidated financial statements and the group management report for the 2016 financial year of KAP-Beteiligung-AG were approved for publication by the Executive Board on April 7, 2017.

Fulda, April 7, 2017

KAP-Beteiligung-AG
Management Board



Dr. Stefan Geyler
Management Board Member

André Wehrhahn
Management Board Member

Auditor's Report

We have audited the consolidated financial statements prepared by KAP Beteiligungs-Aktiengesellschaft – including balance sheet, income statement and statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the financial statements – as well as the Group management report for the financial year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and Group management report in accordance with the IFRS as adopted by the EU and the additional requirements of German commercial law in accordance with § 315a para. 1 of the German Commercial Code (HGB) as well as the supplementary provisions of the articles of association are the responsibility of the company's legal representatives. Our responsibility is to make an assessment of the consolidated financial statements and the Group management report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and the German Generally Accepted Standards on Auditing as promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit so that inaccuracies and breaches materially affecting the presentation of the assets, financial and earnings position in the consolidated financial statements and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the legal and economic environment of the Group and expectations as to possible errors are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the statements in the consolidated financial statements and the Group management report are assessed primarily on a spot check basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the definition of the scope of consolidation, the accounting and consolidation principles applied and the principal estimates made by the legal representatives, as well as an appraisal of the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonably sound basis for our assessment.

Our audit has not led to any objections.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the IFRS as adopted by the EU and the additional requirements of German commercial law in accordance with § 315a para. 1 HGB and the supplementary provisions of the articles of association, and present a true and fair view of the Group's assets, financial and earnings position. The Group management report is consistent with the consolidated financial statements, on the whole provides an accurate view of the Group's position and accurately presents the opportunities and risks for future development.

Oldenburg, April 21, 2017

BDO AG
Wirtschaftsprüfungsgesellschaft

Bartsch Auditor	Schröder Auditor

Responsibility Statement

“To the best of our knowledge, and in accordance with the applicable accounting standards for consolidated financial statements, we assure that the consolidated financial statements provide a true and fair view of the assets, financial and earnings position of the Group, and that the Group management report presents the business performance including the operating result and the position of the Group so that a true and fair view is presented, together with a description of the major opportunities and risks associated with the expected development of the Group for the remainder of the financial year.”

Fulda, April 7, 2017

KAP Beteiligungs AG
Management Board

Dr. Stefan Geyler
Management Board Member

André Wehrhahn
Management Board Member

Income Statement

From January 1 to December 31, 2016

in € thousands	2016	2015
1. Revenue	1,516	0
2. Other operating income	1,071	3,302
3. Expenses for purchased services	1,071	0
4. Depreciation	197	235
5. Other operating expenses	1,925	6,500
6. Financial result	23,455	256
7. Taxes	4,122	3,003
8. Earnings after taxes	**18,727**	**-6,181**
9. Other taxes	1	1
10. Profit/loss for the year	18,726	6,181
11. Profit carried forward from the previous year	9,309	66,734
12. Dividend payment	-6,624	-66,244
13. Withdrawals from revenue reserves	0	15,000
14. Retained earnings	**21,411**	**9,309**

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Due to the presentation of figures in € thousands, rounding differences may occur in the summation.

Balance Sheet

As of December 31, 2016

Assets

in € thousands	2016	2015
A. Fixed assets		
I. Intangible assets	0	0*
II. Property, plant and equipment	592	789
III. Financial assets	142,247	162,350
	142,839	**163,139**
B. Current assets		
I. Receivables and other assets	20,155	34,162
II. Cash and cash equivalents	1,484	183
	21,639	**34,345**
	164,478	**197,484**

LIABILITIES

in € thousands	2016	2015
A. Equity		
I. Subscribed capital	17,224	17,224
II. Capital reserve	54,722	54,722
III. Revenue reserves	3,540	3,540
IV. Retained earnings	21,411	9,309
	96,897	**84,795**
B. Provisions	**1,862**	**3,695**
C. Liabilities	**65,719**	**108,994**
	164,478	**197,484**

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Due to the presentation of figures in € thousands, rounding differences may occur in the summation.

*< 1€ thousands

ADDITIONAL INFORMATION

Index of Tables and Figures

TABLES:

CHARTS:

AG Annual Financial Statements

Glossary

Technical Glossary

A

automotive components

Is the name of our second-largest segment, which comprises a corporate group of metal and plastic processors. The core competence of the group is the production of high-precision parts made of metal, plastic and metal-plastic composite parts.

C

Calendering

A system of several heated and polished rollers made out of chilled iron or steel arranged on top of each other. Smelt or other materials are fed through the gaps between the rollers. This process is used to manufacture plastic films (PVC, PE, PS etc.).

E

engineered products

Is the name of our largest segment. It includes companies whose common feature is to combine textiles with physico-chemical know-how in an often unique way to produce products for various applications in the automotive industry, the construction industry and plant construction. This area is also called “technical textiles”.

N

Non-woven materials

Nonwovens are flexible textile fabrics. This means that they are easily pliable, their main structural elements are textile fibers, and they can be very fine. Nonwovens are a group of materials with a great variety of properties. These can be adapted to a wide range of application requirements through the variety of usable raw materials and manufacturing variants.

S

Scrim

A scrim is a fabric consisting of one or more layers of parallel, continuous filament fibers. At the crossing points, the threads are usually fixed. In contrast to woven fabrics, scrims, as reinforcing structures in carbon fiber composites, have better mechanical properties since the fibers are in a stretched form and thus no additional structural elongation occurs and the orientation of the fibers can be defined specifically for the respective application. Scrims are used to strengthen or reinforce different materials.

T

Technical textiles

Industrial textiles – today known as “technical textiles” – are those materials which serve as an important component of another product and therefore contribute to the strength, performance and other characteristics of this product. They are used as working materials in the manufacture of other products or directly to fulfill important functions. They are often used as intelligent, lightweight substitutes for conventional materials for finishing/improving a final product.

U

Underlays

A flat component, which is placed directly below the water-deflecting roofing, especially in the case of pitched roofs. It serves to divert water, which is blown under the roof cover by the wind, downwards. It is stretched between the rafters.

W

Woven fabric

Woven fabric is the umbrella term for manually or machine-made textile fabrics made of at least two interlaced yarn systems. The yarns are woven together by interlacing the weft over-and-under warp yarns, which means that yarns are interwoven using a certain rhythm (known as binding).

Y

Yarns

Are textiles made from several connected/twisted fibers of different raw materials. They are long, thin and flexible and can be woven, knitted, tufted or otherwise processed to make a fabric.

Financial Glossary

C

Cash flow hedge
Securing the risk of variable cash flows through derivative financial instruments.

Cash flow statement
The cash flow statement shows the origin and use of the cash flows separately, according to operating activities, investing and financing activity, and thus explains the change in the financial fund as of the balance sheet date of the previous year to the reporting date.

D

Derivative financial instruments
Financial instruments whose value or price depends on the future price or price of other assets (underlying assets). These include, but are not limited to, swaps and options.

E

EBIT
Abbreviation of “Earnings before interests and tax”.

EBITDA
Abbreviation of “Earnings before interests, taxes, depreciation and amortization”.

EBT
Abbreviation of “Earnings before tax”.

F

Financial result
Sum of the investment result, interest income, other financial result and the income from Capital expenditures accounted for using the equity method.

Financial Covenants
Obligations under credit agreements. Essentially, these are performance indicators, which must be met by the borrower.

G

Goodwill
Intangible asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

H

Hedge accounting
An illustration of economic hedging relationships in which the reverse value changes of secured underlying transactions and the use of derivative financial instruments used as security are recorded as a valuation unit on the balance sheet.

I

Impairment test
Regular as well as occasion-related audit of non-current assets and cash-generating units for their value. If the carrying amount exceeds the attainable amount, the difference must be recognized as an impairment.

Interest rate swaps
Derivative financial instruments for the exchange of cash flows. For example, in the case of interest rate swaps, fixed and variable interest flows are exchanged between the contracting parties.

L

Leverage factor
Indicates the amount of net financial debt in relation to the EBITDA of the last twelve months.

N

Net financial debt
Is defined by the KAP Group as a balance of securities, cash and cash equivalents, as well as financial liabilities.

O

Operating result
Earnings from operating business activities, is defined as EBIT by the KAP Group.

W

Working capital
Balance of the balance sheet items: inventories, trade receivables and trade payables.

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Publisher:
KAP-Beteiligungs-AG
Edelzeller Straße 44
D-36043 Fulda
Phone +49 661 10 3100
Fax +49 661 10 3830
www.kap.de

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This report contains forward-looking statements based on the current assessment of future developments by the management. Such statements are subject to risks and uncertainties outside the scope of KAP-Beteiligungs-AG's and its subsidiaries' control or precise assessment, such as the future market environment and economic conditions, the behavior of other market participants, the successful integration of new acquisitions and the realization of the expected synergy effects, as well as measures taken by government agencies. Should any of these or other uncertainties and imponderables materialize, or should the assumptions on which such statements are based prove to be inaccurate, actual results could differ significantly from those expressed or implied by such statements. KAP-Beteiligungs-AG neither intends nor assumes a separate obligation to update forward-looking statements in order to adapt them to events or developments after the date of this report.

Rounding and rates of change
Rounding differences may occur in percentages and numbers in this report. The signs representing rates of change are based on economic considerations: improvements are denoted by plus (+), deterioration with minus (–).

Deviations for technical reasons
This financial report is to be submitted electronically by the company to the Federal Gazette in accordance with legal disclosure requirements. For technical reasons, there may be discrepancies in the documents published in the Federal Gazette by the Bundesanzeiger Verlag (Federal Gazette Publisher).

MULTI-YEAR OVERVIEW

	2011[2]	2012	2013	2014	2015	2016
External revenue	432.0	418.7	413.7	387.3	374.5	385.8
Personnel expenses	93.0	95.4	103.1	93.9	86.6	90.1
Investments	36.7	29.0	26.2	27.1[3]	16.3	27.3
Depreciation and amortization	19.8	27.9	27.3	20.7	21.7	21.0
Cash flow[1]	20.5	33.8	23.5	16.0	22.4	29.1
Consolidated annual result	5.1	12.5	-6.2	57.7	1.5	12.8
Fixed assets	155.2	158.3	148.3	151.4[3]	143.8	147.6
Equity	178.9	191.7	177.9	215.6	151.5	147.3
Equity ratio (in %)	45.0	50.7	49.3	60.4[3]	46.3	46.8
Balance sheet total	397.4	378.1	361.0	357.2	327.0	315.0
Earnings per share (after minority interest shares) in EUR	0.49	1.83	-1.06	8.01	0.14	1.82
Dividends per share in EUR	1.00	1.00	2.40	10.00	1.00	2.00[4]
Average number of employees	3,104	3,179	3,134	2,845	2,624	2,616

[1] Cash flow from operating activities.
[2] Adjusted as per the anticipated application of IAS 19.
[3] Adjusted due to the final purchase price allocation of Riflex Film AB.
[4] Subject to the agreement of the Annual General Meeting.

III

FINANCIAL CALENDAR

2017	
Week 22	Publication of the invitation to the Annual General Meeting 2017
Week 24	Mailing of the annual reports
Week 27	Supervisory board meeting, Annual General Meeting 2017
Week 27	Dividend announcement
Week 28	Publication of the voting results of the Annual General Meeting 2017
Week 34	Publication of the interim report (half-year financial report 2017*)
Week 46	Information second quarter 2017
Week 49	Supervisory board meeting with adoption of planning for 2018

IV

*This information is not intended as an announcement in the sense of the German Securities Trading Act (Wertpapierhandelsgesetz).
All information is provided without guarantee.



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