ANNUAL REPORT 2017

KAP Beteiligungs-AG

KEY FIGURES

GROUP KEY FIGURES

in € millions	2013	2014	2015	2016	2017
External revenue	413.7	387.3	374.5	385.8	407.5
Personnel expenses	103.1	93.9	86.6	90.1	97.7
Investments	26.2	27.1[2]	16.3	27.3	24.6
Depreciation and amortization	27.3	20.7	21.7	21.0	26.0
Cash flow[1]	23.5	16.0	22.4	29.1	25.3
EBITDA	18.8[3]	25.9[3]	34.6[3]	39.2[3]	54.3
EBIT (operating result)	-8.7[3]	4.9[3]	12.0[3]	18.0[3]	28.3
Consolidated annual result	-6.2	57.7	1.5	12.8	31.0
Fixed assets	148.3	151.4[2]	143.8	147.6	181.9
Equity	177.9	215.6	151.5	147.3	155.2
Equity ratio (in %)	49.3	60.4[2]	46.3	46.8	44.5
Balance sheet total	361.0	357.2	327.0	315.0	349.1
Earnings per share (after non-controlling interests) in €	-1.06	8.01	0.14	1.82	4.68
Dividends per share in €	2.40	10.00	1.00	2.00	2.00[4]
Average number of employees	3,134	2,845	2,624	2,616	2,724

I

AG KEY FIGURES

in € millions	2017	2016
Other operating income	1.9	1.1
Profit for the year	33.8	18.7
Fixed assets	152.8	142.8
Equity	117.4	96.9
Equity ratio (in %)	61.1	58.9
Balance sheet total	192.2	164.5
Dividend per share in €	2.00[4]	2.00

II

[1] Cash flow from operating activities.
[2] Adjusted due to the final purchase price allocation of Riflex Film AB.
[3] Previous year's figures adjusted due to the changed structure of the consolidated income statement.
[4] Subject to the approval of the Annual General Meeting.

THE SHARE

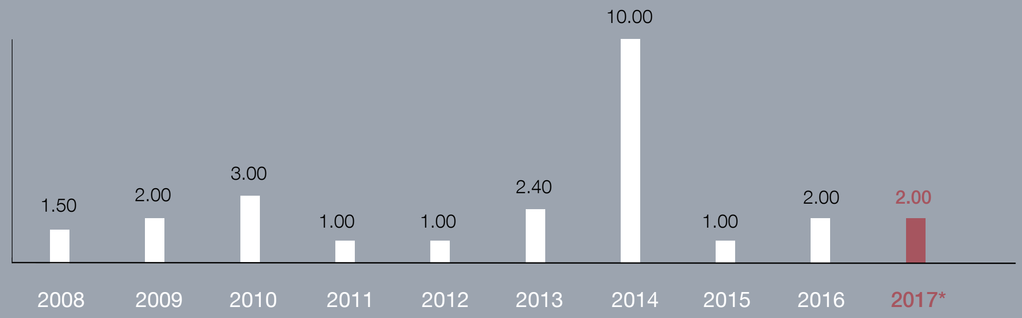
10.3% p.a.

DIVIDEND RETURN
IN THE LAST TEN YEARS

+71.35%

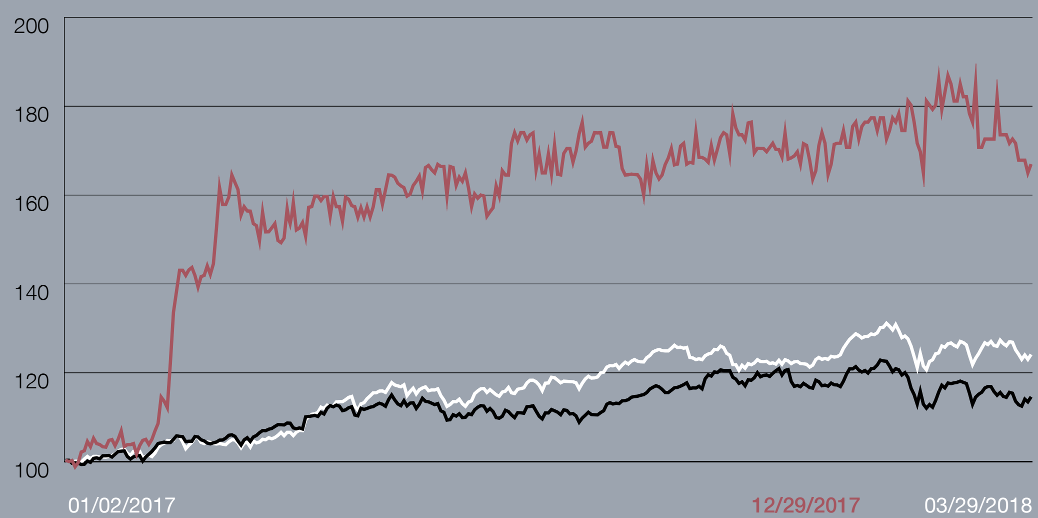
PRICE PERFORMANCE 2017

DIVIDEND YIELD PER SHARE
in €



*Subject to the approval of the Annual General Meeting.

KAP SHARE PERFORMANCE
in %



KAP stock in €
Closing price 03/29/2018:
€35.00

MDAX
Closing price 03/29/2018:
25,591.52 points

SDAX
Closing price 03/29/2018:
11,927.92 points

SEGMENTS

KAP engineered products

The **engineered products** segment represents companies in the technical textiles sector. This product sector includes the production of textile fabrics 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. Here we deliberately focus on units that operate independently and are very strong in their niches.

REVENUE

€286.0 million

EMPLOYEES

1,503

KAP automotive components

The **automotive components** segment comprises all the activities in the areas of metal, plastics 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 worldwide. The diversity of manufacturing technologies we offer is one of our main strengths. We cover the entire metal and plastics segment and offer a unique variety in the manufacture of parts.

REVENUE

€121.9 million

EMPLOYEES

1,018

KAP surface technologies

The **surface technologies** segment bundles the very young and innovative surface coating and finishing group. Whether technically functional or decorative, we offer a wide variety of the latest state-of-the-art chemical as well as electrochemical processes in fully automatic production lines. Without our specialists in electroplating, storage systems and fittings in the consumer market would not have such a fine gloss and many parts installed in our cars would not be protected against corrosion.

REVENUE

€1.1 million*

EMPLOYEES

302

*included in the Group since 12/2017.

CONTENT

2017

We have laid solid foundations for our future success and already achieved a great deal in 2017:

- established **surface technologies** as a new segment
- commenced the process of optimizing the portfolio with the sale of Kirson
- increased revenue and earnings

Everything we do in the future will continue to be shaped by our commitment to generating added value for our shareholders, customers and employees.

INFO GUIDE SYSTEM

Table in table index

Figure in figure index

Cross-reference within the annual report

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

In future structured as
five segments

The previous financial year was marked by the realignment of the KAP Group and the new Group strategy, which in parts has already been implemented successfully and which relates to clearly-defined segments which are profitable and which produce a positive free cash flow. At the same time, we want to become more transparent for you and to report on our activities more often.

In addition to this, we have also subdivided the existing companies into four newly-structured segments in the form of **engineered products**, **flexible films**, **precision components** and **it/services**, which will be used for the purposes of internal control and which operate in the same markets. This produces synergies, for example in distribution, purchasing, research and development as well as in investments, which we emphasize together without limiting the entrepreneurial freedom of the managing directors. We have put together a program with them aimed at continuous improvement.

Successful entry into
surface technologies

As a result of this, we followed up by creating the fifth segment **surface technologies**. Through the acquisition of four different companies we were able to create a completely new segment within a few months, which is becoming a leader in the market with around €70 million in turnover and an EBITDA margin that is well above average. This is clear from the M&A strategy, because we want to invest in companies which are more profitable than average and can be purchased at acceptable prices. This results in the creation of new segments and the strengthening of existing ones, which creates market leaders in dedicated markets. We see ourselves as a medium-sized industrial group and not as an investment company, and we take a long-term approach. With all these four acquisitions we were able to pay the purchase price using a high number of KAP shares, which has been extraordinarily rare since the dotcom bubble burst in 2001 and which shows the potential of the KAP. All these family businesses didn’t just entrust us with their companies, but they also placed a lot of trust in us personally and became shareholders. They remain invested in their own companies and continue to achieve entrepreneurial returns, but they have significantly reduced their risk exposure and benefit from a portfolio of companies. As a result, we are increasing the free float of the KAP shares at the same time and making them easier to trade.

2017 was a successful financial year and confirmed the continuing positive overall development of the Group. Our expectations that sales would exceed €400 million were met, which represents a rise of 6% on the previous year (€385.8 million). Because of the change in the consolidated group due to the sale of Kirson and the entry into surface technologies as well as restructuring measures, the success with the operating result only becomes evident on an adjusted basis, which for the second time in a row was able to increase by more than 50% to €21.4 million from €13.0 million in the previous year. For the purpose of comparability between the segments, we will focus on the EBITDA as a reporting measure for profitability.

Guido Decker, Chairman of the Management Board

Target: EBITDA margin of
more than 10%

We want to generate an attractive dividend for you and increase the value of your stake. As a consequence, we set ourselves the goal of generating an EBITDA margin for the Group of more than 10%. This should be achieved from operational improvements, synergies and a further optimization of the company portfolio. The success of the new strategy can be seen in the first quarter of 2018. With an EBITDA margin of 11.7% we are significantly above the goal mentioned above, and can look ahead to the rest of the financial year with optimism. However, a lack of qualified personnel in some markets and regions as well as possible increases in the prices of raw materials could have a negative impact. We plan to remain selectively active in acquisitions for this financial year and to strengthen existing operations. At the same time, we optimized the company portfolio further with the recently published sale of Geiger Fertigungstechnologie to the Chinese company Zhejiang Tieliu Clutch Co. in accordance with the Group targets, and significantly reduced the dependency on combustion engines. However, the transaction is subject to approval by the various regulatory authorities.

With the Schäfflerbachstraße project in Augsburg too, we were also able to record a success and sign a purchase contract with a local investor. We expect the transaction to be completed this year.

EBITDA target for 2018:
more than €41 million

In the 2018 dividend survey of all listed companies in Germany compiled by the Deutsche Schutzvereinigung für Wertpapierbesitz or DSW (German Society for the Protection of Securities Holders), where until recently we placed in the top five, this time we made it up to second place with an average dividend yield of 10.3% over the past ten years, and are included under the section “high-yield investment”! We can be proud of this, but at the same time it provides an incentive for the future. At the Annual General Meeting this year we also propose a dividend of €2 per share.

We expect the positive trend to continue during the current financial year, and with the existing consolidated group we anticipate an increase in revenue to over €410 million and an EBITDA of over €41 million.

Yours faithfully

Guido Decker
Chairman of the Management Board

BOARDS

Management Board

Guido Decker, Chairman
(from August 1, 2017)
Dipl.-Kaufmann,
Fulda, Germany

No other mandates

Dr. Stefan Geyler, Speaker
(until April 24, 2017)
Dipl.-Physiker,
Bonn, Germany

No other mandates

André Wehrhahn
(until December 12, 2017)
Dipl.-Betriebswirt (FH), MBA,
Fulda, Germany

No other mandates

Fried Möller, Deputy Member
(from April 24 to August 1, 2017)
Dipl.-Kaufmann,
Stadtallendorf, Germany

Other mandates:
Mehler AG, Fulda, Germany[1]
KAP Textile Holdings SA Ltd., Pearl, South Africa[2]

Supervisory Board

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

Other mandates:
Mehler AG, Fulda, Germany[1]
Klenk Holz AG, Oberrot, Germany[1]

Fried Möller, Deputy Member
(from April 24, 2017 and from December 7, 2017)
Dipl.-Kaufmann,
Stadtallendorf, Germany

Other mandates:
Mehler AG, Fulda, Germany[1]
KAP Textile Holdings SA Ltd., Pearl, South Africa[2]

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

Other mandates:
Klenk Holz AG, Oberrot, Germany[1]

Florian Möller
(from July 7 to October 30, 2017)
Attorney,
Stadtallendorf, Germany

No other mandates

Pavlin Kumchev
(from July 7, 2017)
Associate Director of The Carlyle Group,
London, United Kingdom

Other mandates:
Bis Industries Holdings Ltd, Australia[2]

Uwe Stahmer
(from May 8, 2017)
Businessman,
Bad Zwischenahn, Germany

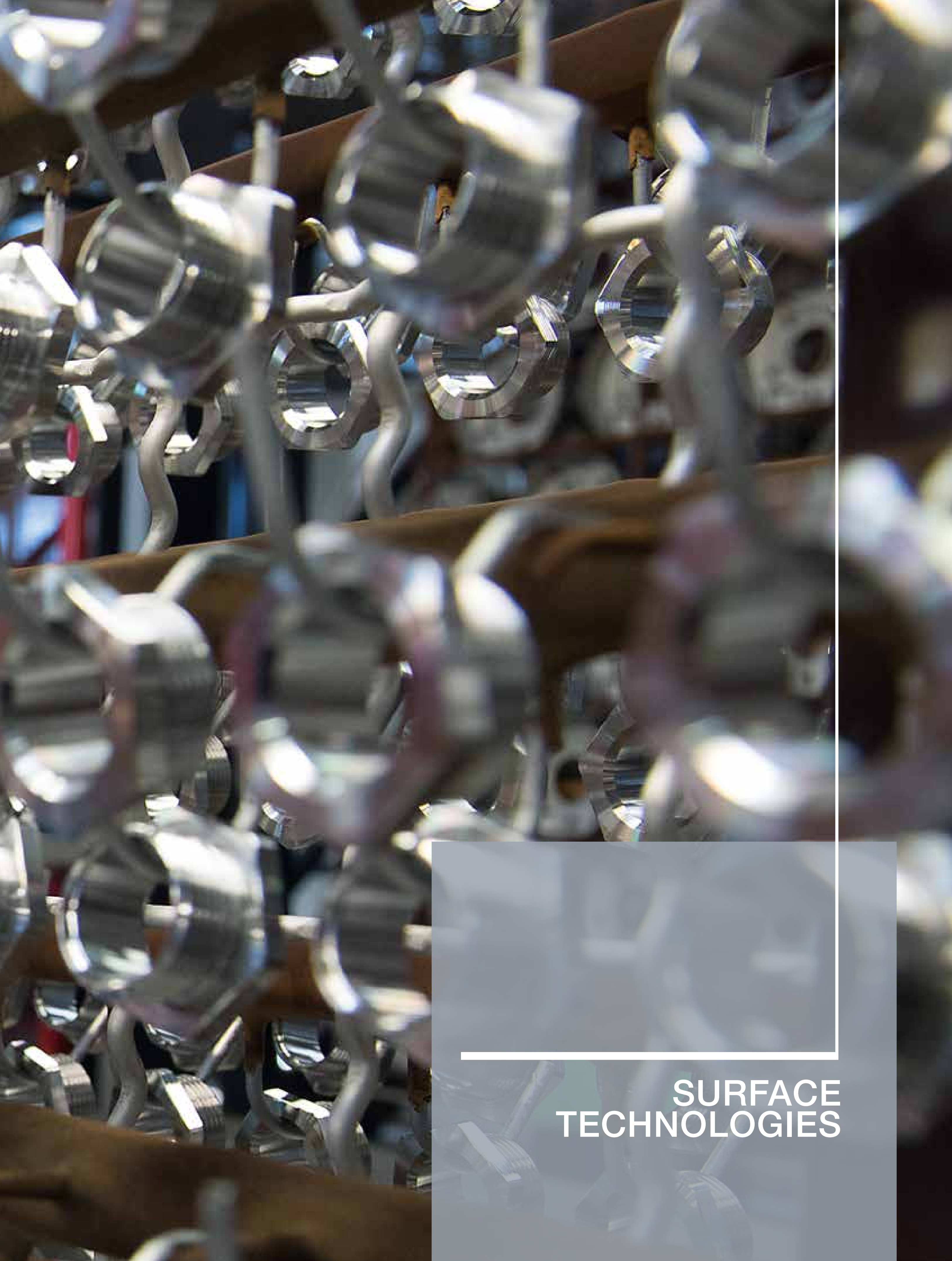
No other mandates

Roy Bachmann
(from July 7, 2017)
Consultant,
London, United Kingdom

No other mandates

[1] Member of domestic supervisory boards required by law.

[2] Member of comparable domestic and foreign control committees.



SURFACE TECHNOLOGIES

SURFACE TECHNOLOGIES

Segment

Left to right: Mario Papsdorf, Katrin Möckel, Rainer Just, Nicolai A. J. Baum

With the creation of its new **surface technologies** segment, KAP Beteiligungs-AG is emphasising its foresight once more by investing in promising new and, what's more, profitable technologies.

Electroplating is used in all kinds of industries and it's nearly impossible to imagine a production process that doesn't use it.

Whether it's medicine technology or in the automotive, sanitation or electronics industries, none of them could survive without electroplating.

GtO production hall II

Galvanised precision components

GtO head office

SURFACE TECHNOLOGIES

Segment

The thin layers of copper, nickel or chrome, for example, that are mostly less than 20 micrometres in size, are also enormously valuable for non-decorative purposes, and thanks to their outstanding properties they even provide us with the basis for a forward-thinking reduction in the consumption of resources. In addition to being a visual improvement, galvanised surfaces usually have a significant influence on tribological properties and corrosion resistance in the base product in question.

For example, just 1 kilogram of zinc protects well over a tonne of screws and nuts from corrosion, meaning that according to estimates, high-tech electroplating processes prevent damages of around €150 billion from corrosion and wear.

Modern surface coatings are produced by fully automated plants, so by simply changing the processes and procedures in your plant technology you will be in a position to react very flexibly to new market requirements.

With just a 5–15% share of the added value, it doesn’t make sense to pass on the price pressure from other industries to the galvanising sector. The possible price advantages offered by a poor choice of special coating can’t make up for the possible damages of lower quality or longer delivery times, which is how the electroplating industry manages a sustained EBITDA margin of 10–20% above other industries.

It is this very approach that KAP Beteiligungs-AG has adopted, and with its new **surface technologies** segment is investing in innovative and state-of-the-art electroplating sites that are already using the latest coating technology.

The segment should therefore take a central role as soon as possible and grow organically as well as through acquisitions. An annual turnover of at least €100 million as well as an double figures EBITDA margin have been set as targets.

TARGET: €100 MILLION SEGMENT TURNOVER

Zinc alloy for 1st tier brembo

SURFACE TECHNOLOGIES

Gt Oberflächen GmbH (GtO)

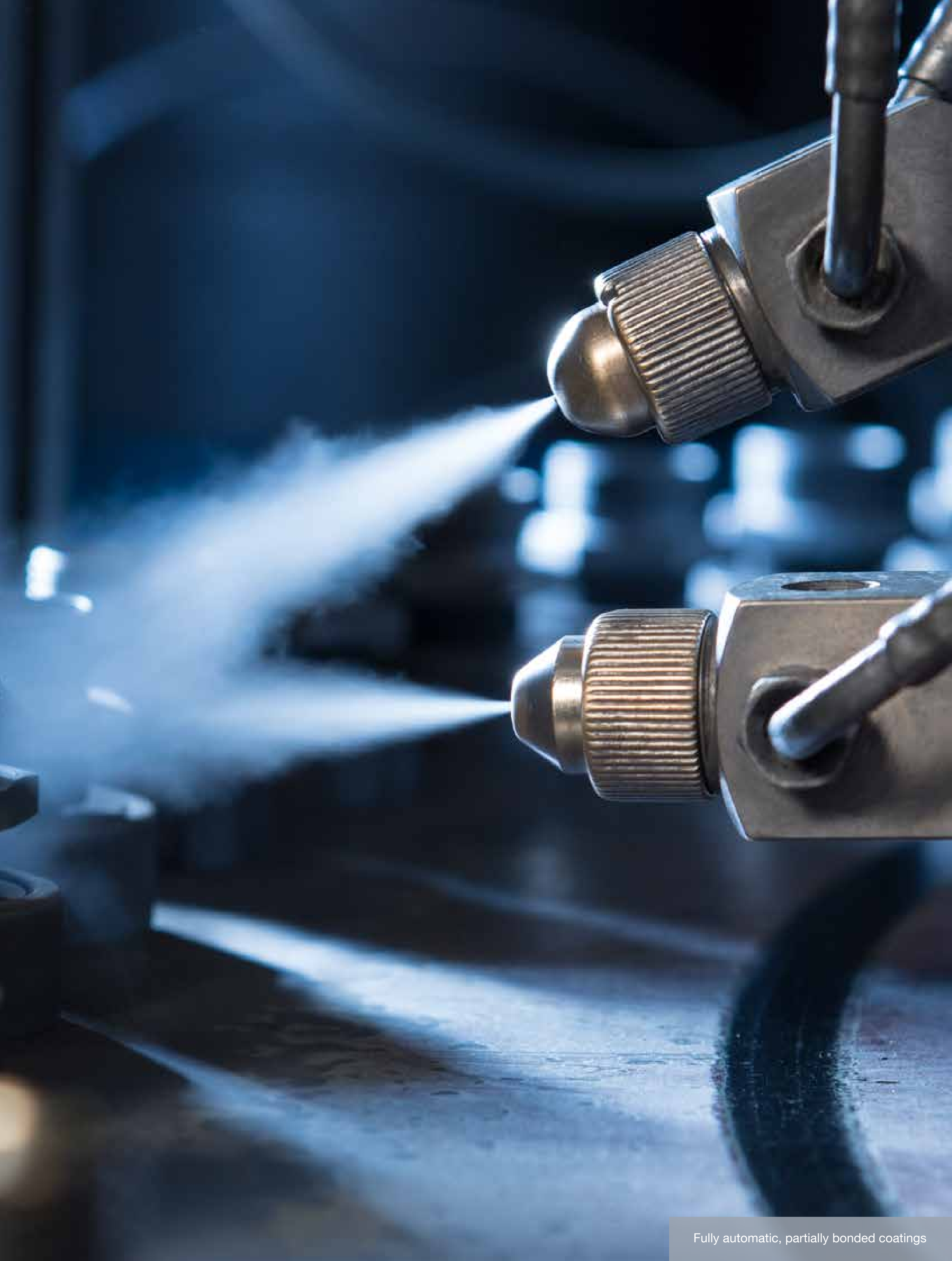
The company from Saxony in eastern Germany has a rich tradition and was founded in 2003. Since then GtO was managed by the 1977 established Baum Group. A number of leading employees from this group are now employed at GtO. Decades of experience in electroplating combined with state-of-the-art plant technology are a guarantee for ideal technical and functional corrosion protection, with an appealing design to match.

An in-depth quality and environment management system, certified according to IATF 16949 and EMAS/ISO 14001, forms the foundation for our leading position in the industry in terms of quality and productivity.

GtO specialises in coating high-volume precision components with zinc and zinc alloy surfaces for major clients such as LuK, Brembo, Bosch and many more leading automotive suppliers, in addition to partial coatings using various top coats.

This significantly improves resistance to corrosion, tribological properties and of course the way products look – while at the same time also significantly reducing resource consumption by using the latest technologies.

gtoberflaechen.de



Fully automatic, partially bonded coatings

SURFACE TECHNOLOGIES

Gt Oberflächen GmbH (GtO)

Titration in the analysis laboratory

In the company's own laboratory, existing electrolytic processes are not just continuously monitored but also constantly being further developed.

Trained specialists create highly-efficient suspension fittings or stands that are tailor-made to the customers' requests, together with the company's own toolmaking facility for any kind of part geometry imaginable.

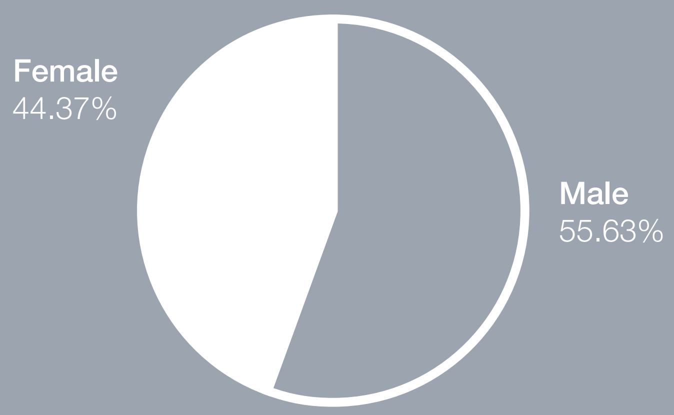

Fully automatic zinc alloy system


Loading and unloading stands


Inspection of precision components during production

100%
Integration, progress and fairness

SURFACE TECHNOLOGIES
Employee structure



	Female employees	Male employees	Total
GtO	97	87	184
MVD	12	51	63
OFT	25	30	55
Total	**134**	**168**	**302**

GtO has been visited by Chancellor Merkel in person because of its value-oriented corporate governance. A number of regional and national awards – for example the "Unternehmen mit Weitblick" (Companies with Foresight) award – are proof that inclusion, a focus on training and continuing education, employee suggestion schemes, workplace ergonomics and integration of foreign employees are considered standard operating procedure for the company.

The management team also comprises over 75% women – which is unusual for the industry.

High-strength screw nuts, ZnNi coated, tempered and with partially bonded coating

SURFACE TECHNOLOGIES

Metallveredlung Döbeln (MVD)
Oberflächentechnik Döbeln (OFT)

MVD

Due to the history of the company which goes back to when it was founded in 1938, Metallveredlung Döbeln can fall back on decades of experience when it comes to surface treatment and has an excellently qualified workforce.

Since 2010, the most state-of-the-art manufacturing and plant technologies have been installed at the current site, which covers more than 30,000 square metres and forms the basis of MVD's leading position in electroplating when it comes to price and quality.

Whether it's millions of headrests in shiny chrome or billions of the tiniest little screws, nuts, bolts or hinges – MVD always provides a highly-polished finish as well as long-lasting and sustainable protection against corrosion.

mv-doebeln.de

Fully automatic zinc barrel plant

SURFACE TECHNOLOGIES

Metallveredlung Döbeln (MVD)
Oberflächentechnik Döbeln (OFT)

OFT

Like MVD, Oberflächentechnik Döbeln is also well placed for a future Europe-wide ban on Chromium VI and has already made its production processes very environmentally-friendly.

OFT is a young and fast-growing company specialising in technical corrosion protection and decorative surface treatment.

When it comes to copper, nickel and chromium, the coating company enjoys a leading position among renowned wire and bending companies, which means there is hardly a single supermarket out there whose shelves

Zinc bulk material for the fittings industry

Chromium-III coated special component

Master computer control centres for chromium plating systems

are not set up with an OFT finish. OFT was first built on a green-field site in 1999 and now has three modern production and storage facilities equipped with state-of-the-art plant technology.

OFT is proud to be able to say that essential production lines have already been completely overhauled to incorporate Chromium VI and cobalt-free techniques, and as such the company is a leader in environmentally-friendly electroplating.

oft-doebeln.de

SURFACE TECHNOLOGIES

Metallveredlung Döbeln (MVD)
Oberflächentechnik Döbeln (OFT)

In zinc and zinc alloy barrel plants, which are monitored online, millions of small components are galvanised as bulk parts using a fully automatic, technically functional process with micrometre precision.

The master computer is responsible for monitoring the electrolysis and the galvanisation, which in turn documents the processes for up to 20 years.

Automated loading and unloading processes with the help of paternosters and conveyor belts as well as the company's own carriage technology ensure that even just one or two employees can coat up to 20 tons of goods in one shift. And this is all done simply and sensibly from an ergonomic perspective.

A plant operator at the master computer

Fully automatic rotary centrifuge

Hinges for the furniture industry, galvanised without using Chromium VI

Chrome-plated panels for kitchens

100%
Skill


Mechanics installing a new platform lift truck

The in-house maintenance team works around the clock to ensure that the production facilities at all the factories are available almost 100% of the time up to 360 days a year.

The frame construction also makes sure that each electrolyte can always be coated with a particularly high coating thickness and an optimum degree of efficiency (energy yield) that reflects the state of the art.

Upon request, small to medium-size equipment installations as well as the further development of plating lines can be carried out by our own highly-motivated and well-trained staff.

Fully automated chromium plating system

SURFACE TECHNOLOGIES

Sustainability

Responsible business is a key part of our corporate governance policies. All our sites therefore rely on coating technology that is sparing in its use of resources and therefore highly efficient.

Our pre-treatment processes (cleaning components) are therefore particularly gentle on the components and done using the most up-to-date ultrasound technology and efficient application equipment supported by inhibitors.

All our processes are based on cyanide-free technologies, and our process water recirculation system as well as our own specially-developed evaporating technology enable us to use up to 95% of the rinse water in a closed cycle. Ultra-modern ion exchangers clean our passivation baths, which are partially based on nanostructures so that they don't need to be removed and can be used for long periods of time.

Because we substitute resource-intensive coating procedures for our ZnNi-high performance coatings – for example in traditional hot-dip galvanising – we can reduce the consumption of materials by up to 90% for the same level of resistance to corrosion.

Our in-house water treatment plants are able to treat waste water so effectively they meet the criteria for a direct discharger.

We call that quite simply:
GREEN TECHNOLOGY by KAP.

Modern ion exchangers to recover metals/treat waste water

GREEN TECHNOLOGY
by KAP


OFT photovoltaic system

Both of the Döbeln sites, MVD and OFT, produce a significant portion of their power themselves through rooftop photovoltaic systems. This not only allows them to significantly reduce their carbon footprint, but it also provides customers with long-term, cost-effective and reliable in-house energy production.

The in-house heating and power station augments this type of emissions-free power supply and in doing so supplies a significant portion of the heating required for warming electrolytes.

Ultra-modern free cooling plants like the ones installed at GtO make it possible to cool baths in a way that doesn't use much energy or resources.

What do we call that? GREEN TECHNOLOGY by KAP.

Free cooling plant technology

SURFACE TECHNOLOGIES

Nicolai A. J. Baum

“In addition to the continued organic growth that we will increase at all three sites in the next few years, I am convinced that we will become one of the top five coating companies in Europe over the next few years through our successful integration of further surface coating companies.

We want to concentrate on our leading position in terms of procedures and quality as well as sustainability. Through this we will establish ourselves under the new KAP SURFACE TECHNOLOGIES brand with an EBITDA margin well into double figures. A strong focus on investments and with highly-motivated and well-trained electroplating specialists, we will continue to invest in additional plant technology and so guarantee that production reflects the state of the art.”

SEGMENTS

engineered products

From 2018
new segment structure

We will be reporting on the **engineered products** segment, which until now has been responsible for the lion's share of Group revenue and represents companies from the technical textiles sector, for the last time in this format. Going forward, we will be dividing these companies into three logical segments and thus making them more outwardly transparent. Internally, bundling related expertise in the areas of purchasing, R&D and sales will allow us to exploit synergies. In future, this segment will be separated into **engineered products** (technical textiles – MEP and OMT), **flexible films** (CaPlast, Elbtal, Riflex, Steinweg, NOW Contec and Convert) and **it/services** (lit-novum and MEHLER Engineering und Service GmbH).

MEHLER ENGINEERED PRODUCTS GMBH (MEP) is among the leading developers, service providers and outfitters of technical yarn and fabric products, with three European sites and three international locations in the US, China and India. One of its core markets is the automotive industry, where MEP supports its clients worldwide with highly specialized product and process expertise. Typical examples of use are tires, inner tubes, drive belts and pneumatic suspension systems.

The revenue trend in its European and global markets outperformed the previous year in almost all market segments. This was facilitated by the ongoing implementation of the newly introduced sales strategy, with a clear focus on utilizing the available market and customer potential. The high-end segments for qualitatively and technically sophisticated end products continues to offer numerous opportunities for growth. The market situation in the commodity divisions, by contrast, remains fraught by strong pressure on margins.

To successfully assert itself in this new global competitive landscape, in 2017 MEP entered into a strategic partnership with US-based Beaver Manufacturing Inc., Georgia. The goal of this strategic partnership is the distribution and production of Beaver products in Europe. The result achieved by the close of the 2017 financial year was ultimately unsatisfactory since the positive effects resulting from the realignment and sales measures were counteracted by rising commodity prices and pressure on margins.

OLBO & MEHLER Tex GmbH & Co. KG (OMT) is one of the leading producers of technical textiles worldwide in the markets in which it operates, including Indutech, Mobiltech, Buildtech, Geotech, Agrotech, Meditech and Protech. Its production sites in Portugal and the Czech Republic manufacture a wide range of woven technical textiles, which are used for applications such as conveyor belts, hoses, filters, airbags, power transmission belts, brake systems, buildings, moving walkways, protective clothing and medical products. Thanks to an optimal production flow of machinery and equipment coupled with structured quality management and state-of-the-art laboratory facilities, OMT's production processes are highly efficient.

OMT was able to increase its revenue by 5% in the reporting year, fueled predominantly by a sharp spike in demand in the conveyor belt sector (+12%). Unfortunately, this pleasing development did not trickle through into the final results, as commodity price increases and negative currency effects could not be offset by corresponding price increases. We expect revenue and contribution to earnings to pick up again in the current financial year.

Our investment company, CaPlast, specializes in the coating of tiles, woven fabrics, films and paper. Its main products are high-quality membranes for pitched as well as flat roofs. The company focuses in its core areas of application of construction and automotive on consistently expanding and refining its innovation leadership. As part of this process, it systematically taps into new areas of business and application by means of targeted acquisitions and value-adding partnerships. Alongside these fundamental goals, the company is committed to continually expanding its geographical sales reach both with existing solutions as well as with new products.

Revenue saw satisfactory growth in the reporting year, recording a year-over-year increase of 7%. In spite of the closure of the Turkish site, earnings improved dramatically by 69%. Internal optimizations are now having a tangible effect and have laid sustainable foundations for good business performance in 2018 as well.

CaPlast result:
+69%

In the reporting year we upped our non-controlling stake in NOW Contec and Convert Vliesveredelung, both located in Waldfischbach-Burgalben, into a majority stake, in line with plan. These two very successful companies are specialized in the winding, cutting, printing, taping and packing of permeable roof lining membranes and agricultural fleeces. We were extremely satisfied with the companies' business performance in 2017 and forecast an EBITDA margin of over 10% for the current financial year.

Our company Elbtal is a leading global manufacturer of PVC films and sealing membranes, with head office in Coswig (Dresden). Its core area of business accounting for more than 80% of revenue is reinforced swimming pool membranes and pool liners. The main sales market for its products is Italy, and its export ratio is close to 70%.

In the 2017 financial year Elbtal was unable to match the success achieved the previous year, due not least to skyrocketing commodity prices, which negated the positive effects of the company's good product and pricing policy, high capacity utilization in production, and revenue which was almost on a par with the year before. Even if the result had been significantly better, it would not have met our planning. By tapping into new growth markets and developing existing ones, the company expects to rescale previous heights in 2018.

Our other high-tech film manufacturer Riflex also failed to impress in 2017. While revenue dipped only slightly, earnings contracted sharply due to the loss of a profitable major customer and production issues at the beginning of the reporting year.

We sold our longstanding portfolio company Kirson, a manufacturer of reinforcing scrims in the premium segment, to Saint Gobain in the reporting year. The company had made an accustomed high contribution to earnings until it sale.

Kirson
sold

it-novum GmbH and MEHLER Engineering und Service GmbH (MES) have for several years been evolving from internal service departments into successful service providers with predominantly external clients. it-novum is a specialist in the area of open source applications and last year took over the Enterprise Content Management (ECM) business area of Westernacher Solutions AG, making it the largest provider of Alfresco services and solutions in Europe. The acquisition encompasses all products, employees and clients of the ECM segment and will help it-novum consolidate its position as a leading solution provider for digitizing internal company information and processes.

Revenue declined on the back of the sale of the proprietary developed software openATTIC. Adjusted for this effect, revenue rose by 4.6%. The site in Austria also posted a positive performance.

MES is concerned with company relocations, maintenance services and the development of innovative drying systems. In the reporting year, MES again met expectations, delivering a result that was slightly above the prior-year level.

The **engineered products** segment fell short of our forecast revenue target, with earnings up only slightly to €286.0 million (prior year: €282.3 million). We also cannot be completely satisfied with the segment result of €9.2 million (prior year: €16.5 million), given that we had calculated earnings of over €15 million. It should however be borne in mind here that Kirson is only included on a prorated basis owing to the sale.

	in € millions	2017	2016
	Revenue	286.0	282.3
	Segment result	9.2	16.5
	Investments in plant, property and equipment	14.0	13.5
1	Employees	1,503	1,580

See segment reporting by business area, page 140 f.

SEGMENTS

automotive components

Our **automotive components** segment bundles 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.

2017 was a year of mixed fortunes: while we succeeded in significantly increasing segment revenue and, at €121.9 million, exceeded our original forecast of more than €110 million, this positive performance is not reflected in the segment result due to the disposal of the unprofitable site in Haslach.

Geiger had a very successful 2017

Our company Geiger had another extremely successful financial year and significantly exceeded expectations. The company specializes in high-precision metal components, which are used predominantly in the automotive industry. The exceptional performance was driven primarily by the high revenues earned with injector bodies for utility vehicles, which were well above budget and the prior-year figure. Revenue was also increased in the product sector for truck exhaust gas cleaning systems, closing the year above budget; this was contrary to expectations at the beginning of the year, when a drop-off in revenue had been feared.

The company anticipates revenue to fall slightly this year, as an earlier-model car injector series is reaching its end-of-life. A further increase in revenue is forecast for truck injectors. Four new lathes have already been ordered to boost production capacities in this area, which will be delivered in the second quarter of 2018.

Revenue at PTD up 35%

The financial year was equally successful for our company Präzisionsteile Dresden (PTD), which manufactures turned and milled parts for top-tier clients in the automotive industry. Revenue was up 35% year-over-year; and in contrast to the previous year, this had a significant impact on results. This pleasing development was attributable mainly to the high demand for innovative new products which can for example be built into an electronic brake booster or used in electronic parking brakes.

The company is extremely optimistic for the year ahead and plans to step both revenue and earnings up another notch.

Social plan adversely impacted result

Our highly specialized manufacturers of gears, cogs and related parts made out of metal, plastic or a combination of both, which we have bundled in the Gear Motion Group, should be viewed on a differentiated basis compared with the previous year. Following the merger of Bebusch, Haslach, into Gear Motion, Ehingen, revenue increased by 55%. It should however be noted that a further 24% increase was generated by the strong performance of the original business area. Due to the under-utilization of capacities, the Haslach site was ultimately closed and the associated costs placed a considerable drain on Gear Motion's results, with around €6 million being diverted to an agreed social plan for the site's workforce. Excluding this effect, performance was strong, driven largely by the rollout of new customer projects – with more in the pipeline for the future. Consequently, the Group is firmly on track with its strategic realignment to become a company with superior development expertise.

The **automotive components** segment also comprises our production facility in Bebusch, Hungary, which specializes in the manufacture of composite plastic-metal components. Its products range from casing components to complex system solutions. This site is well utilized and on a stable footing in terms of revenue and earnings.

Overall, the automotive components segment performed very satisfactorily during this financial year. Both revenue and earnings developed ahead of plan. Unfortunately, expenses tarnished this picture.

	in € millions	2017	2016
	Revenue	121.9	104.9
	Segment result	1.8	2.6
	Investments in plant, property and equipment	6.2	10.8
2	Employees	1,018	985

See segment reporting by business area, page 140 f.

SEGMENTS

surface technologies

New segment off to a **good start**

We expect our newly created **surface technologies** segment to make an above-average contribution to the Group result in the future Here we have bundled our three surface treatment companies acquired over the course of the previous financial year: Galvanotechnische Oberflächen GmbH (GtO), Unterheinsdorf, Metallveredlung Döbeln GmbH (MVD) and Oberflächentechnik Döbeln GmbH (OFT), all located in Sachsen.

Surface treatment or electroplating is used in almost all areas of industry: whether in medicine technology or in the automotive, sanitation or electronics industries, none of them could survive without electroplating. With that in mind, it comes as no surprise that the customer group we serve in this segment is extremely broad; of these, however, the automotive industry and its suppliers is the primary consumer.

Our companies coat parts of all shapes and sizes with metals such as copper, nickel or chrome, with layers usually measuring less than 20 micrometers thick In addition to being a visual improvement, galvanised surfaces usually have a significant influence on tribological properties and corrosion resistance in the base product in question.

This segment's revenue and earnings in the reporting year cannot be used to draw any conclusions since they were only included in our annual financial statements for one month.

GtO was founded in 2003 as a company specializing in surface treatment for a diverse range of products, occupying an approximately 15,000m^2 industrial site in Unterheinsdorf (Sachsen). Decades of experience in quality management according to ISO TS 16949 continue to build the basis for its leading position in electroplating when it comes to price and quality. Investment has been and continues to be made in cutting-edge technology and professionally trained employees.

The high quality of its products and the rapid and reliable just-in-time fulfillment of orders have helped it establish a prestigious reputation in markets throughout Europe. GtO remains one of Germany's largest job coating plants. Its leading position in job coating is furthermore evidenced by the commissioning of Europe's highest-performing zinc-nickel dual rack plating line in 2014

The vastly differing surfaces of equipment parts – especially in the automotive industry – are finished using a wide range of techniques in the aim of increasing durability and, in particular, preventing corrosion. GtO finishes customer parts exclusively in so-called rack lines, whereby the racks on which they are to be fitted are designed and/or manufactured in the company's own workshops.

Currently approximately 200 employees working in a three-shift rotation produce the highest-quality fully automated systems, and what is more in complete harmony with nature – an overriding concern of the company since it was founded.

MVD was founded as stamping and galvanizing business in Döbeln back in 1938. After being nationalized by the former GDR in 1972, following its re-privatization in June 1990 the company was realigned to its original profile – electroplating. Since 2010 MVD has been manufacturing for clients from various sectors on an industrial site covering a good 30,000m², featuring a completely redesigned production process, equipped with a state-of-the-art wastewater treatment plant and its own power production through photovoltaics and cogeneration.

Over 50 employees work in a three-shift rotation on fully automated rack and basket lines. The plant is currently operating at almost full capacity, although the site still offers sufficient room for future expansion. The cost structure is in the process of being adjusted, and potential synergies with the neighboring company OFT are being examined.

OFT was founded as a greenfield development in Döbeln in 1999. In the ten years that followed, three new, state-of-the-art production and storage facilities were erected, equipped with cutting-edge plant technology and totaling an eight-digit investment. OFT is therefore a young and fast-growing company specialising in technical corrosion protection and decorative surface treatment.

When it comes to copper, nickel and chromium, the coating company enjoys a leading position among renowned wire and bending companies; this process is used for example to give supermarket shelves their optical finish. The essential production lines have already been completely overhauled to incorporate Chromium VI and cobalt-free techniques, meaning they comply with the latest EU guidelines and lead the pack in environmentally-friendly electroplating.

The **surface technologies** segment will take a central role as soon as possible and grow organically as well as through acquisitions. We have set ourselves the mid-term target of an annual revenue of €100 million and a two-digit EBITDA margin.

	in € millions	2017	2016
	Revenue	1.1	-
	Segment result	-0.7	-
	Investments in plant, property and equipment	0.2	-
3	Employees	302	-

See segment reporting by business area, page 140 f.

THE SHARE

THE STOCK MARKETS PERFORMED WELL IN 2017

The capital markets continued the positive trend from the final quarter of 2016 over 2017 as a whole. Activity on the international stock markets was shaped by a variety of geopolitical factors, including parliamentary elections in the Netherlands, France and Germany, the protracted Brexit negotiations between the UK and the European Union, and the ongoing tense political environment in the Middle East and North Korea. In the US, the Dow Jones Index kept setting one record after another in spite of adverse events such as terror attacks, the extraordinary political situation in Turkey, or Trump's isolationist America First platform and North Korean policy.

As the European economic forecast brightened and global economic growth picked up, the capital market performed well, as reflected in broad-based prices gains on the equity markets and a higher external value of the euro against other major currencies such as the US dollar.

For Germany, the main influencing factors were an improved investment climate thanks to the dissipation of economic risks and better consumer sentiment on the back of higher employment and wage increases.

The DAX and MDAX trended sideways at the beginning of the year, before bottoming out in February and January at 11,510 and 22,194 points respectively. In the first half of the year, from February to May, the DAX and MDAX started to climb, followed in the middle of the year by losses (DAX) and stagnation (MDAX), and then between September and November by renewed gains and respective highs of 13,479 and 27,027 points. The DAX and MDAX closed on December 29, 2017 at 12,918 (11,481) points and 26,201 (22,189) points. Accordingly, the leading German index rose by 12.5% year-over-year, while the MDAX recorded a performance of 18.1%.

THE KAP SHARE

Price gain
of the KAP share
71 %

The KAP share price moved in just one direction in the reporting year – upward! This was supported not only by the pleasing operating performance in the segments, but also by the high expectations placed on our growth strategy. From the beginning until the end of 2017, the share price rose from €21.01 to €36.00 – a growth rate of a staggering 71.35%. This does not yet include the dividend paid in 2016 of €2.00. If we were to factor in the 2016 dividend as well, this would make the KAP share one of the top performers of 2017.

Investors in search of a running yield would also be hard pushed to find a better investment on the German equity market: in the current 2018 dividend study by DSW, we have the second-best share of all listed companies in Germany, with an average dividend yield over the last ten years of 10.3% p.a.

The share price went from strength to strength in the first two months, climbing from its low of €20.70 on January 5, 2017 to around €30.00 – and has not dipped below this level since. Over the next five months, the price fluctuated between €31.00 and €35.00, before reaching its short-term high of €40.00 on July 28 and then dropping off slightly to €34.00. Buoyed by the positive news about the corporate transactions conducted during the financial year, the price recovered in the final three months of 2017 to a range of €35.00-€38.00, closing out the year at €36.00 An especially pleasing development from a shareholder perspective were the strong gains made on the Frankfurt stock exchange. Peaking at over 18,000 units (which was undoubtedly an upward outlier), but trading in normal business within the range of 1,000 and 10,000 shares, we were significantly up on the volumes seen in previous years.

The share price continued to perform well in the first quarter of the current year, topping out at €39.20.

We will step up our investor relations efforts to explain our strategy and its implementation to the financial community in a way that is consistent and transparent. An integral component of this strategy is also to gradually increase our freefloat. By the end of the current year we will already have achieved the first milestone on this journey and exceeded the 20% mark by a considerable degree.

Market value
€239 mn

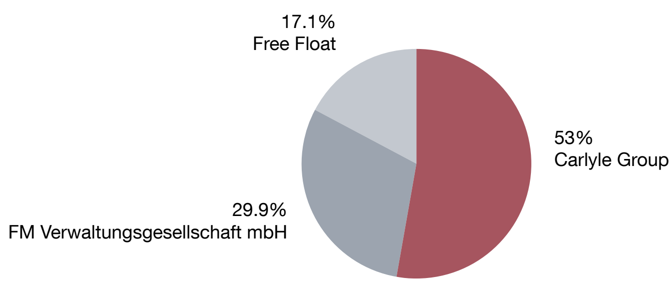
The subscribed capital of KAP-Beteiligungs-AG totaling €17.224 million remains divided into 6,624,446 shares with an arithmetic share in the share capital of €2.60 per share. The share is listed on the Frankfurt stock exchange. All shares carry a voting right. As of the reporting date December 31, 2017, market capitalization stood at €239 million.

Annual General Meeting 2018

The Annual General Meeting will take place on July 20, 2018, in Frankfurt am Main. Shareholders will obtain their invitation and agenda from their depositary banks. Management is again proposing to the Annual General Meeting the payment of a dividend of €2.00.

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

SHAREHOLDER STRUCTURE as at December 31, 2017 in %



1

KEY INDICATORS OF THE KAP SHARE

	2017	2016
Earnings per share (€)	4.68	1.82
Gross cash flow per share (€)	3.82	4.40
Carrying amount per share (€)	22.62	21.93
Equity (excluding non-controlling interests) (€ thousands)	149,822	145,285
Dividends per share[1] (€)	2.00[2]	2.00
Distribution amount[1] (€)	13,248,892[2]	13,248,892
Dividend yield[1] (%)	5.6	9.5
Year-end stock market price[3] (€)	36.00	21.10
High[3] (€)	37.39	23.20
Low[3] (€)	20.70	18.00
Number of shares as of December 31 (shares)	6,624,446	6,624,446
4 Year-end market capitalization[1] (€ thousands)	238,480	139,776

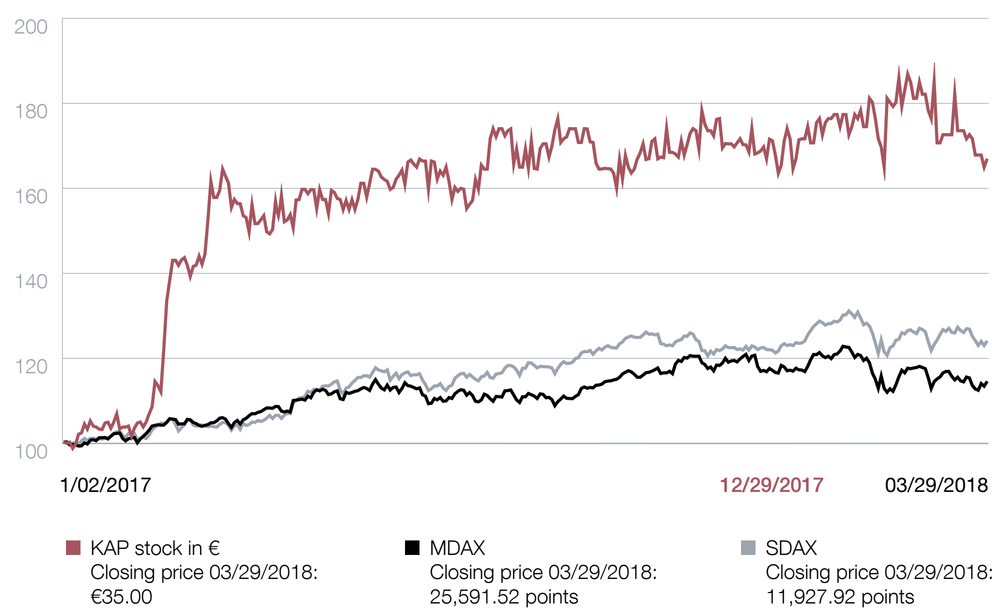
[1]For the respective financial year.
[2]Subject to the approval of the Annual General Meeting.
[3]Information relates to the closing price on the Frankfurt Stock Exchange.

KEY DATA OF THE KAP SHARE

Securities identification number	620840
ISIN code	DE0006208408
5 Stock exchange symbol	IUR

KAP SHARE PERFORMANCE
in %

2



COMPLIANCE REPORT

As an international, listed corporation with headquarters in Fulda, Germany, KAP Beteiligungs-Aktiengesellschaft is subject to the regulations of the German Stock Corporation Act, Capital Market Act and Co-determination Act, as well as the provisions of its own Articles of Association and internal guidelines. Compliance is understood within this context to refer to Group-wide measures to comply with legislative and statutory provisions and internal company guidelines; it constitutes a core component of corporate governance and corporate culture and must be observed in all aspects of the Group's daily business.

In the financial year just ended we stepped up our work to set up a Group-wide Compliance Management System we had begun in the years before. This included appointing a Chief Compliance Officer who regularly reports to the Management Board and Supervisory Board, and also strengthening the Compliance division at the Fulda site by appointing a Compliance Manager and deploying Compliance Officers at the local level within the operating investment companies of KAP Beteiligungs-AG. The central Compliance division is housed within the Legal and Tax division.

The focus of our decentralized and formalized Compliance Management System is on the areas of anti-corruption, cartel law, sanction and export controls, and IT security and data protection.

With a view to underpinning and expanding the compliance system, we have additionally introduced a series of internal guidelines and directives, for example a code of conduct, as well as a Group guideline entitled “Gifts and invitations” to add substance to the anti-corruption guideline. This was accompanied by the implementation of a training concept to improve transparency and acceptance among our employees and e-learning initiatives to support the compliance culture. These in-person events in the form of compliance workshops and webinars were also attended by our executives, including members of the Management Board and Compliance Officers.

Moreover, we have rolled out global risk management software which makes it possible to input not only economic and strategic but also compliance risks.

In 2018, alongside the introduction of additional guidelines and the ongoing expansion of the compliance organization (including training programs and the rollout of comprehensive sanction and export control software), we plan to devote increased attention to the topic of data protection. In addition, we will be replacing the telephone-based whistleblower system introduced a few years ago by a web-based system. To this end, we will continue to follow the recommendation included in the German Corporate Governance Code under Section 4.1.3 in the reporting year, which stipulates that employees and also third parties should be given a suitable opportunity to report potential legal infringements within the company without fear of recriminations. The whistleblower system is operated by a German third-party provider in compliance with the highest IT and data protection standards.

GROUP MANAGEMENT REPORT

BUSINESS MODEL

We are a listed industrial holding company with segments rich in income and cash flow operating in strategically defined markets. Small and medium-sized companies of all sizes form segments which are intended to be roughly equal in sales and profitability. The result is a portfolio that is able to cope with market fluctuations as a group network. As a holding company we continuously assess the appeal and competitiveness of existing and new segments as well as consider possible reinforcements in Germany and abroad. We achieve economies of scale for our companies, for example in financing, and promote an ongoing process of improvement. The individual managing directors are given the entrepreneurial freedom to implement these jointly defined 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. To manage the segments we place special value on profitability and liquidity key ratios in order to achieve an attractive dividend for our shareholders while at the same time increasing shareholder value.

In future, KAP will be managed using **EBITDA**

The strategic business units are managed on a monthly basis using a management reporting system which contains key figures describing the income statement, balance sheet, liquidity and cash flow, as well as providing an explanation of the current business situation. In addition, working capital is managed monthly with a purpose-built tool. We attach great importance to profitability and liquidity indicators, including sales, EBITDA and property investments, in order to ensure that countermeasures can be initiated at an early stage in the event of deviations, and that strategic decisions can be made in good time when needed. Compared to the previous year, we have switched from EBIT to EBITDA for our profitability indicators in order to achieve better comparability between the business segments. We are in constant contact with the respective managing director to discuss the results and future developments, and see this as an essential component of our success, in combination with the management reporting system. KAP Beteiligungs-AG secures the financing of the operating business and ensures that there is sufficient liquidity for the subsidiaries.

ECONOMIC ENVIRONMENT AND DEVELOPMENT 2017

Global economy and economic development in Europe

According to IMF estimates the USA is bump starting the global economy with its tax reforms – at least temporarily. The IMF has accordingly raised its growth forecasts for the USA and Germany – very significantly, in both cases. According to IMF experts, the changes in US tax policy will stimulate economic activity, and the boost for the USA will spill over to the major trading partners, such as Germany. This should last until 2020, according to the IMF in its current economic outlook.

However, it will probably change after 2022, when restraining effects will emerge, for example through a larger US current account deficit, higher debts and a stronger US dollar. The US economy is expected to grow 2.7% in 2018 and 2.5% in 2019.

For the global economy, the IMF now expects growth of 3.9% in both 2018 and 2019, 0.2 percentage points more in both cases than in fall 2017.

Besides the USA and Germany, the IMF is almost more optimistic about the growth outlook for China. The world's second largest economy should grow 6.6% this year and a further 6.4% in 2019, in both cases 0.1 percentage points more than in the fall 2017 forecast. The IMF is skeptical about the UK's planned exit from the EU, maintaining its growth forecast of 1.5% for 2018 and lowering its 2019 forecast by 0.1 percentage points to 1.5%.

The loose monetary policy of many central banks also played a role here. The US Federal Reserve is changing course, but cautiously. However, the European Central Bank has repeatedly made it clear that any change in zero interest rates is still in the distant future as far as it is concerned.

Nevertheless, there are also warning voices complaining that reforms are often lacking in the member countries for strengthening growth in the long term and removing weaknesses. Finally, there are many uncertainties, such as the end of the low interest phase and a worrying increase in debt in many nations. If the politicians do not act soon, this could bring on the next crisis.

Unemployment in Europe has developed favourably. In the eurozone the rate fell at the end of the year under review to 8.7% (previous year: 9.7%), its lowest level since 2009. The figures for the EU28 are even better: According to Eurostat, the rate at end-December 2017 was 7.3%, down from 8.2% in the previous year, which is the lowest level since October 2008. While the Czech Republic (2.3%), Germany and Malta (both 3.6%) are at virtually full employment, Spain (16.4%) and Greece (20.7%) are at the other end of the ranking in member states, but also show the steepest declines with 2.1 percentage points and 2.6 percentage points respectively.

The economy in the emerging nations continued to firm over the year under review. This is due above all to a revival in production in countries exporting commodities, which had suffered seriously in 2015 and 2016 from the collapse in commodity prices and are now benefiting from the significant recovery in prices. For example, the recession in Brazil has ended, and production in Russia is back on a clear uptrend. Economic growth in Russia is still constrained by the effects of sanctions by the Western industrialized nations. Expansion in the Asian region has continued strongly. The pace of expansion in the Chinese economy slowed only slightly, even though monetary stimulus was scaled back and growth in credit has slowed. In the third quarter of 2017, GDP was 6.8% higher than in the previous year, somewhat higher than the government's announced target. In India, growth in production has slowed significantly, but this is primarily a temporary result of the economic reforms, which should encourage economic growth in the longer term, such as the currency reform at the end of last year and the introduction of a national value added tax.

Economic development in Germany

The German economy grew faster in 2017 than it has in the past six years. Gross domestic product (GDP) grew 2.2%, according to the provisional figures announced by the Federal Statistical Office. This was the highest figure since 2011, when Europe's biggest economy was recovering from the deep recession in 2009 as a result of the global financial crisis. Even 2016 was a record year, with the economy growing 1.9%. This again significantly exceeds the forecasts made in the previous year.

The sharp upswing in the year under review was powered by strong consumer demand, increased investment by many companies, and foreign demand for “Made in Germany”. The state also benefited from the booming economy, with rising taxes and social security contributions leading to flush state coffers.

Consumers are in a spending mood, the labor market is in a historically favorable state, and there is virtually no yield on savings because of the zero interest rate policy of the European Central Bank

(ECB). According to the Nuremberg GfK consumer research institute, very few people in Germany are currently worried about their jobs, and confidence in the booming economy continues to be high.

At the same time, the strong recovery in the global economy is leading to growing demand for goods produced in Germany. Germany's exporters head for their fourth record year in a row in 2017. In the first eleven months of the previous year, machinery, cars and other goods worth €1.18 billion were exported, – an increase of 6.5% on the previous year. Companies in Germany were also investing in plant and machinery – and vehicles. A continuing problem is the shortage of skilled labor, which is becoming increasingly problematic according to estimates by the German Chamber of Industry and Commerce (DIHK), and is increasingly strangling German economic growth. Based on a survey of almost 24,000 firms, DIHK experts calculated in their latest labor market report that there are now some 1.6 million vacancies in Germany which cannot be filled in the longer term.

As a result, the German government collected more money in 2017 than it spent for the fourth year in succession. The surplus to the Federation, countries, municipalities and social funds totalled €38.4 billion, a surplus of 1.2% of GDP. According to the Federal Ministry of Finance, tax revenue totalled €674.6 billion, an increase of €26.3 billion or 4.1% on the previous year. Besides the strong performance of companies and resulting increase in income tax, the stable employment with rising wages and salaries was a decisive factor. Income tax alone rose 5% on the previous year – to €238.8 billion. Europe's biggest economy is also benefiting from low interest rates, with the state continuing to refinance in the capital market on favorable terms.

For years, Germany has been far from the Maastricht Treaty limit of 3.0% of GDP for government deficits. The last time Germany posted a (minimal) deficit was in 2013.

Economists expect the German economy to grow by over 2% in the current year as well. With its increased forecast, the IMF even expects growth of 2.3% for the current financial year, and is very positive for 2019 as well with growth of 2.0%. As Ifo president Clemens Fuest recently put it, "The German economy is humming".

General conditions in the "Technical Textiles Industry"

In a welcome speech at the international Techtextil+Texprocess 2017 trade fair for technical textiles and nonwovens, Dr. Reinhold Ewald, ESA astronaut and professor of astronautics and space stations, noted the high-tech potential of technical textiles. "High-performance materials based on fibers play a decisive role in astronautics where it's a matter of, for example, reducing the weight of space capsules. Every excess gram results in costs."

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. According to IVGT, there are over 40 fiber-based individual components in each car, statistically speaking. These include seat covers, roof liners and safety belts, filters, hoses, airbags, instrument panels and components in fiber-reinforced plastic. All areas in which the **engineered products** segment operates and will thus be participating in strongly in future! 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. The increase in geotextiles and architectural textiles is being fuelled 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. It 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. Today, the technical textile segment already has a share of just under 50% in total sales of the German textile industry, according to the association's figures.

Targeted market volume by 2024:
US$ 200 billion

A study by the Research and Markets institute estimates that the world market for technical textiles will grow to up to USD 211.8 billion by 2024. The main reason for these favorable prospects will be the ongoing growth in vehicle construction. However, stable growth in construction and implementation of infrastructure projects and increasing demand in the healthcare sector will also provide stimulus for growth. There will also be new applications. Growing R&D budgets in research institutes and companies will mean, for example, growing importance of nanotechnology in the textile sector, and the pressure for constantly increasing efficiency will add to the effects in the above industries. Composites, for example, 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 study, the world market volume of textile-reinforced fiber composite materials is estimated at just under USD 100 billion. The Asian market, led by China, India and South Korea, will become the world leader, but other emerging markets are becoming increasingly important for German manufacturers.

According to the Confederation of the German Textile and Fashion Industry, the German industry, with over 600 companies with more than 20 employees in each case, is the world market leader and, therefore, the largest exporter of these products.

General conditions in the automotive and automotive supply industry

The automotive market grew globally in 2017. In China the market showed further growth, and car unit sales in Europe reached their highest level since 2007. In the Japanese passenger car market, significantly more vehicles were sold in 2017 than in the previous year, and India also showed strong growth. The markets in Brazil and Russia also reported good growth rates over the course of the year. The only slight decrease in sales was in the USA, although they are still at a high level.

In Europe, full-year unit sales in 2017 totalled 15.6 million, some 3% more than in the previous year, almost returning to the pre-crisis level. There was an unusual development with a decline of 6% in the UK, where the depreciation of the pound and the strong uncertainty over Brexit weighed heavily on the market. In all, 25 out of 30 countries showed an increase in unit sales. Another point to note is that the diesel share was reduced to 43.4% for the full year. In December, passenger car unit sales in Europe were around 1.1 million, a decrease of 5%. However, there were fewer working days than in the previous month. Of the high-volume markets, only Spain showed an increase (+6%), while France (-1%), Germany (-1%) and Italy (-3%) all reported declines. The UK was also significantly lower (-14%).

In the USA, volume in the light vehicle market (passenger cars and light trucks) fell by almost 2% over the course of 2017 to 17.1 million new vehicles. The decrease was particularly dramatic in passenger cars (-12%), while popular light trucks gained 4%. This gave this category a new record with 69% market share. After seven successive years of growth and a new record level of 17.5 million vehicles in 2016, the US market was accordingly showing slight saturation tendencies in 2017. The two hurricanes Harvey and Irma created an unusual situation in late summer by destroying numerous automobiles – an estimated 100,000 vehicles had to be replaced following this. The fundamental conditions for the US automotive economy were actually good in 2017: the price for a gallon of regular gasoline averaged USD 2.42 for the year, still well below the average for the preceding five years (USD 3.01). In addition there was an excellent labor market situation and a high level of consumer confidence. Despite three key rate increases by the US Fed, financing conditions continued favorable, and the manufacturers also offered substantial discounts.

The Chinese market closed the year with 24.2 million passenger cars sold, 3% more than in 2016. In December, sales totalled 2.6 million new cars, matching the previous year's high value and exceeding the total annual volume of the UK market in just one month.

The Japanese passenger car market showed strong growth for the full year, with unit sales of new cars rising 6% to 4.4 million vehicles. In the past month the automotive business showed sales of 330,300, just short (-1%) of the previous year's level.

India stood out with an increase in unit sales of 9% in 2017 with 3.2 million units sold. This avoided the threatened distortions of the currency and tax reforms. With forecast growth of 10% for 2018, the Indian market could exceed Germany for the first time. In December the market was up 5% year on year (239,700 passenger cars). The Russian market recovered in 2017 at a low level. Full-year sales of new vehicles sold rose 12% on the previous year to 1.6 million vehicles. Sales on the Brazilian light vehicle market reached 2.2 million units in the previous year, 9% up year on year: this was the first growth year in five years. In December 2017 growth was 3% (205,300 vehicles), making it the eighth month of growth in a row.

The German automotive market

The German passenger car market was very successful again in 2017. Against the background of satisfactory economic growth, 3.44 million vehicles were newly licensed, the highest market volume in the current decade. Compared to 2016, this represents growth of 2.7%, maintaining the positive trend from earlier years. This development benefited from the good state of employment and the continuing favorable financing conditions. The diesel changeover bonus scheme announced by the manufacturers from August last year provided a boost, which the first half of 2018 should still benefit from.

The year under review was primarily dominated by the ongoing debate about the future of the diesel engine and the resulting structural market effects. The possible driving ban caused clear uncertainty among potential customers, leading to clear shifts in the market shares of types of fuel. New licenses rose significantly, particularly for vehicles with gasoline engines, and over the year their market share was 57.7%, almost five percentage points more than in the previous year. There were similar major shifts at the end of the 1990s when diesel gained substantial market shares, apart from the years 2009 and 2010 when the "scrapping bonus" moved the market in favor of gasoline engines. At the same time, electric vehicles (BEV and PHEV) are slowly but steadily growing in importance. The environmental bonus in particular is promoting demand for electric vehicles. A market volume of around 55,000 vehicles represented growth of 117%. However, the market share is still low at 1.6%. Our two segments **engineered products** and **automotive components** benefited from this development independent of the shifts, primarily due to new production volumes.

Germany is an international leader **in surface treatment**

German group brands were very successful again in 2017, maintaining the high level of unit sales in the previous year and selling 2.39 million new vehicles, more than in any year since 2006. For importers, business was rather more dynamic, with growth of around 8%. The market share of German group brands was around 69.4%. The trend towards off-road vehicles and SUV was maintained in 2017, when they became the vehicle segment most in demand for the first time. 23.8% of new licensed vehicles were off-road vehicles or SUV, a new record.

General conditions in electroplating and surface technology

Electroplating and surface technology is a German industry with a traditional strong SME influence. In the narrower sense, this covers companies engaged in finishing

- bought-in products and
- third-party products as subcontractor

In Germany there are around 915 companies with more than 20 employees, which together number 50,000 employees and have sales of around €8.2 billion. Using this definition, industry sales have grown 65% in the past ten years, with exports rising faster than domestic sales. However, the export share is still small at around 15%.

This statistic is only the tip of the iceberg, as it completely ignores companies with fewer than 20 employees. Industriekreditbank estimates total sales of surface technology in Germany at around €17.5 billion, making Germany the leading nation in surface technology in the EU.

The industry supplies a broad range of customers. The most important group is still the automotive industry, which absorbs around 40% of surface technology's total output. However, taking into account indirect deliveries through other subcontractor industries raises the share significantly above the 40% level. Other important customer groups are mechanical engineering, construction, medical technology and aerospace. These technologies are also used in electrical engineering, packaging, (tele)communications and transportation.

The outstanding expansion of these industries in the 2017 financial year led logically to predominantly very good growth of the companies in electroplating and surface technology, and therefore also in our segment as well.

The most frequent metals used for coating were zinc and zinc compounds, which accounted for around 40% of all electroplating coatings in value terms, followed by copper, nickel, chrome, tin and precious metal coatings.

Even if the share in value of electroplating surfaces in the total value of the final product is only 5 to 15%, electroplating still plays a decisive role in making innovating product concepts possible. These components combined with the high quality of electroplating coatings is the key to the high added value of electroplating in Germany.

OVERVIEW OF THE FINANCIAL YEAR

2017 was a very successful financial year and confirmed the continuing positive overall development of the Group. Our expectation that sales would exceed €400 million was met, and at €407.5 million, was 6% above the previous year (€385.8 million). The new growth track was also associated with changes in the consolidated group. The portfolio company Kirson was successfully sold to the French Saint Gobain Group, and we entered a new segment with surface technology. At the same time, reorganization measures were initiated in the **automotive components** segment which resulted in nonrecurring charges. Success with the operating result accordingly only becomes evident on review on an adjusted basis. At €21.4 million, it was increased from €13.0 million in the previous year, growth of over 50% for the second time in a row. This also put it significantly above the originally planned figure and the forecast €16.5 million in the second interim report in November 2017.

Adjusted
EBITDA of more than
€40 million

The operating result includes, besides the deconsolidation result of €23.0 million, adjustments of €16.1 million, including €5.0 million in severance payments for staff reductions and former members of the Managing Board, €5.2 million in impairment losses in India and €0.4 million for our Augsburg site. One-off effects from the disposal of assets were reduced by €-0.9 million. Unusually high warranty and restructuring expenses of €3.6 million and income of €0.8 million from the release of provisions were normalized. Legal and consulting costs of €3.6 million, in particular for M&A activities, were adjusted. Normalized EBITDA thus amounts to €42.1 million (previous year: €34.2 million) and is thus up by around 23 % on the previous year. The adjustments made are in line with the management's view. The adjustments of €5.4 million pertain to the **engineered products** segment, €6.7 million to the **automotive components** segment and €4.0 million to the **all other segments** segment.

At end-August, financing was restructured and fixed for the next five years through a syndicated loan, including setting the terms. This gives the Group a basis for financial planning.

Adjusted
segment EBITDA
€26.5 million

The **engineered products** segment increased sales from €282.3 million in the previous year to €286.0 million. Kirson is included in this figure for only nine months, and we can consider our original sales target of over €290 million to be achieved. The technical textiles companies, MEHLER ENGINEERED PRODUCTS (MEP) and OLBO & MEHLER Tex (OMT), both contributed significantly to this. The fiber business and power train products developed well, and the conveyor belt market has also turned around. Flexible films companies maintained sales overall at the previous year's level, as Kirson was only able to contribute for nine months. While CaPlast grew significantly, particularly in the construction, covers and landscaping areas and Elbtal maintained the previous year's level, Riflex reported slight losses. Results on an adjusted basis (nonrecurring earnings of €4.1 million were reported in the previous year) increased from €12.4 million to €14.6 million, despite the disposal of Kirson. However, we were unable to exceed the €15.0 million threshold as originally planned. MEP increased its contribution to results from the previous year, and CaPlast in particular made an above-average contribution, while Elbtal was disappointing in view of the steady increases in raw materials prices and Riflex fell short due to the loss of a major customer and production problems. Corresponding countermeasures were initiated at both for the current financial year. The consultancy firm it-novum also improved results on a comparable basis. Adjusted EBITDA was €26.5 million, compared to €24.6 million in the previous year.

At NOW Contec and Convert Vliesveredelung, two flexible film companies in which a 26% stake was acquired in the previous year, we increased our stake to 51 % at the end of the year, and hope to be able to increase it further in the current financial year. The companies brought us an income of €0.6 million in the 2017 financial year.

Segment result
tripled

automotive components had a very successful year with a 16% increase in proceeds to €121.9 million (€104.9 million) and is thus around 10% above our expectations. Truck injector bodies and e-bike components in particular acted as growth drivers. Both the Gear Motion Group and Geiger Group contributed. As the Haslach site could no longer be profitably managed, it was decided to abandon it and initiate reorganization measures. Adjusted for the expenses for the social welfare plan and for restructuring amounting to €5.6 million, and other non-recurring expenses of €1.0 million, the segment result was more than tripled from €2.6 million in the previous year to €8.4 million. Adjusted EBITDA amounts to €15.8 million and is thus more than 60% above the previous year's figure of €9.6 million.

Expansion of the portfolio and entry into the new **surface technologies** segment were very successful. At end-November and mid-December last year, we acquired three companies, Gt Oberflächen GmbH (GtO), Oberflächentechnik Döbeln GmbH (OFT) and Metallveredlung Döbeln GmbH (MVD). The companies are located between Chemnitz and Dresden and are specialists in surface coating and finishing, including corrosion protection of functional metal parts or finishing with chromium surfaces. Due to the end-of-the-year date for completion of the transactions, the new segment has not been able to contribute significantly to consolidated sales and results, but we expect that Kirson will more than compensate for this in the current financial year, in terms of both sales and (particularly) results.

In the **all other segments** segment, we were still unable to complete the Augsburg development project. Based on the project developer's estimate of the sales price, an impairment of €0.4 million was required.

At the start of the year, the remaining holdings in the securities portfolio were sold, leading to proceeds of €18.8 million.

Capital expenditure on property, plant and equipment amounted to €20.9 million (previous year: €24.7 million) and are thus, as forecast, above the scheduled depreciation of €19.6 million (previous year: €19.8 million). The main focus of investment was on the **engineered products** segment, particularly at the site in Portugal but also in the USA. The Dresden location made the most investments in the **automotive components** segment.

There was also positive news regarding STÖHR & Co. AG i.L., whose deletion in the commercial register was registered for last February.

EARNINGS POSITION

Earnings position

in € thousands	2017	%	2016	%	Change
Revenues	407,522	99.0	385,782	100.1	21,740
Changes in inventories and own work capitalized	4,254	1.0	-331	-0.1	4,585
Total performance	**411,776**	**100.0**	**385,451**	**100.0**	**26,325**
Other operating income	13,128	3.2	11,951	3.1	1,177
Cost of materials	-239,425	-58.1	-218,410	-56.7	-21,015
Personnel expenses	-97,704	-23.7	-90,125	-23.4	-7,579
Depreciation and amortization of intangible assets, property, plant and equipment and investment property	-25,955	-6.3	-21,221	-5.5	-4,733
Other operating expenses	-56,528	-13.7	-49,659	-12.9	-6,868
Result from the disposal of fixed assets and liabilities	23,047	5.6	-	-	23,047
Operating result	**28,339**	**6.9**	**17,987**	**4.7**	**10,352**
Net interest income	-3,851	-0.9	-4,717	-1.2	866
Other financial income	8,168	2.0	7,248	1.9	920
Financial result	**4,317**	**1.0**	**2,531**	**0.7**	**1,786**
Earnings before income taxes	**32,655**	**7.9**	**20,518**	**5.3**	**12,138**
Income taxes	-2,962	-0.7	-8,182	-2.1	5,220
Result of discontinued operations	1,282	0.3	416	0.0	866
Income taxes, from discontinued operations	-	-	-	-	-
Consolidated annual result before non-controlling interests	**30,975**	**7.5**	**12,751**	**3.3**	**18,224**

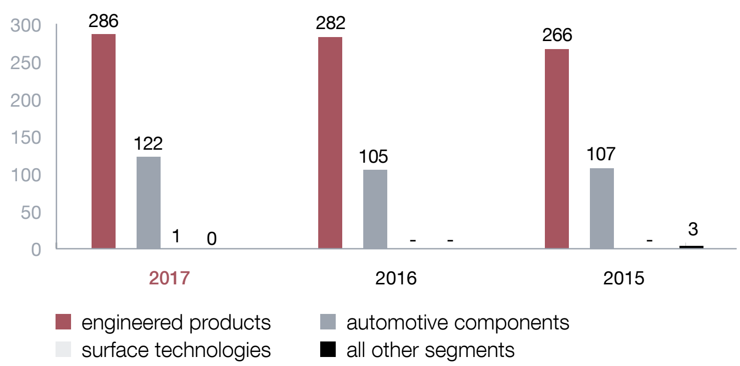
Consolidated revenue rose in the changed consolidated group by €21.7 million or 5.6 % to €407.5 million (previous year: €385.8 million). Exchange rate effects had a negative influence on revenues in the 2017 financial year, which totalled €1.3 million (negative in previous year: €1.5 million).

Increase in inventories (reduction in previous year) totalled €1.0 million (previous year: €1.6 million). Own work capitalized was significantly higher than in the previous year at €3.2 million (previous year: €1.2 million). Total operating performance was €411.8 million (previous year: €385.5 million). This represents an increase of 6,8 %.

Other operating income was virtually unchanged in relation to total operating performance at €13.1 million (previous year: €12.0 million). In particular, the higher income of €0.5 million each from asset disposals and distributions led to a rise by €1.2 million.

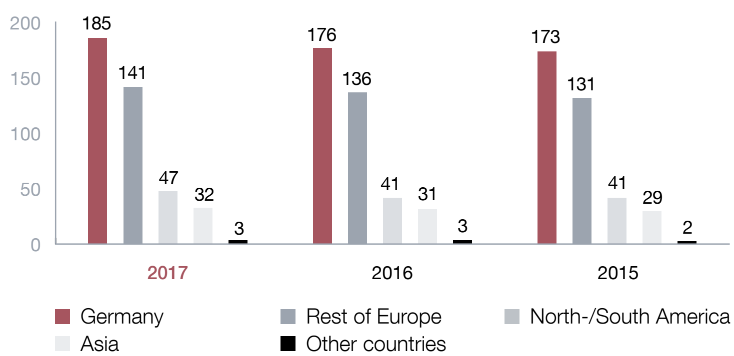
REVENUE TREND BY SEGMENT
in € millions

3



REVENUE TREND BY REGION
in € millions

4



The materials ratio rose 1.4 percentage points to 58.1% (previous year: 56.7%). Cost of materials was €239.4 million (previous year: €218.4 million), and specifically the expense for purchased services was €5.0 million higher than in the previous year period, at €36.1 million (previous year: €31.1 million).

Compared to the previous year, the personnel ratio was virtually unchanged at 23.7% (previous year: 23.4%). In absolute terms, this means a rise of €7.6 million to €97.7 million (previous year: €90.1 million). This includes severance payments of €4.1 million under a social plan for our Haslach site.

At €26.0 million (previous year: €21.2 million), depreciation and amortization were significantly higher than in the previous year. Due to the continuing underutilization of production facilities at our location in India, write-downs to the lower net realizable value of €5.2 million were required. In the previous year, these totalled €0.7 million and related to the Kalefeld and Flieden land and technical plant and machinery at our location in Turkey. The ratio of depreciation and amortization to total performance increased to 6.3% (previous year: 5.5%). Investment in property, plant and equipment totalled €20.9 million (previous year: €24.7 million) was in line with regular depreciation and amortization of €19.6 million (previous year: €19.8 million).

Other operating expenses rose €6.9 million on the previous year to €56.5 million (previous year: €49.7 million). This is particularly the result of higher costs of legal and consulting fees and reorganization expense of €1.5 million for our Haslach facility. The share in operating result has improved to 13.7 % (previous year: 12.9 %).

Result from disposal of fixed assets and liabilities, amounting to €23.0 million (previous year: €0.0 million), €20.9 million of which was from the sale of shares in Kirson Industrial Reinforcements GmbH, while the proceeds from STÖHR & Co. AG i.L. accounted for €2.1 million, as shown in the report for the half-year.

The operating result increased to €28.3 million (previous year: €18.0 million). The increase by €10.4 million was particularly the result of deconsolidation profit of €23.0 million.

The share in operating result has improved to 6.9% (previous year: 4.7%).

SEGMENT RESULT (BEFORE CONSOLIDATION)
in € millions

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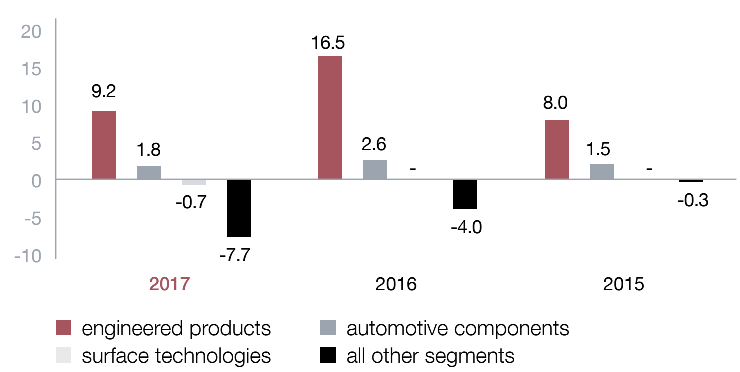

The interest result improved to €-3.9 million (previous year: €-4.7 million), primarily due to lower interest expenses. The share in operating result has improved to -0.9 % (previous year: -1,2%).

Other financial result is €8.2 million, an increase of €0.9 million (previous year: €7.2 million). Sale of the remaining 120,000 shares in Allianz AG at the start of the year yielded income of €10.9 million. The balance of exchange rate effects from financing activities deteriorated significantly to €-2.6 million (previous year: €-0.3 million).

Consolidated balance sheet result
+60%

The total financial result was €4.3 million (previous year: €2.5 million).

Our result before income taxes was €32.7 million (previous year: €20.5 million), around 60% over the previous year.

Income tax expense improved to €3.0 million (previous year: €8.2 million). The actual income tax expense decreased by more than half at €2.4 million (previous year: €5.9 million). The change in deferred taxes on temporary valuation differences and tax loss carry-forwards resulted in an effect of €-0.5 million (previous year: €-2.3 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 €31.0 million (previous year: €12.8 million).

FINANCIAL POSITION

Financial position

in € thousands	12/31/2017	%	12/31/2016	%	Change
Assets					
Non-current assets	188,042	53.9	155,351	49.3	32,690
Current assets	161,044	46.1	159,683	50.7	1,361
	349,085	**100.0**	**315,034**	**100.0**	**34,051**
Equity and liabilities					
Equity and reserves	155,187	44.5	147,293	46.8	7,894
Non-current liabilities	70,815	20.3	49,269	15.6	21,547
Current liabilities	123,083	35.3	118,473	37.6	4,610
	349,085	**100.0**	**315,034**	**100.0**	**34,051**

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

The increase of €34.1 million in balance sheet total to €349.1 million (previous year: €315.0 million) is due particularly to the newly acquired companies in the **engineered products** and **surface technologies** segments.

Non-current assets were particularly affected by this, with growth of €32.6 million to €188.0 million (previous year: €155.4 million). The preliminary purchase price allocations for the companies in the **surface technologies** and **engineered products** segments that were fully consolidated for the first time, resulted in additions to goodwill of €12.7 million and €8.7 million for customer relationships.

At €23.0 million, intangible assets were higher than in the previous year by €21.3 million (previous year: €1.7 million) due mainly to the additions to the consolidated group.

Property, plant and equipment rose by €15.9 million from €136.9 million to €152.8 million. Investment totalled €20.9 million (previous year: €24.7 million), significantly down on the previous year. Depreciation and amortization increased to €24.8 million (previous year: €19.8 million). The stock of investment properties decreased further to €4.9 million (previous year: €6.8 million).

Other financial assets were virtually unchanged at €1.3 million (previous year: €1.2 million).

Deferred tax assets amounted to €6.1 million (previous year: €6.7 million), €0.6 million below the previous year. While temporary valuation differences declined by €1.2 million to €4.6 million (previous year: €5.8 million), there was an increase of €0.5 million in tax loss carryforwards to €1.5 million (previous year: €1.0 million).

Current assets rose only slightly by €1.3 million to €161.0 million (previous year: €159.7 million).

Inventories rose by €1.5 million to €74.0 million (previous year: €72.5 million).

Trade receivables showed a clear increase (€7.6 million) to €64.3 million (previous year: €56.7 million).

Claims for refunds of income tax prepayments amounted to €2.3 million (previous year: €1.6 million), €0.7 million higher than the previous year.

At the start of the year, we completely disposed of the remaining securities portfolio of 120,000 shares in Allianz SE, which had a carrying amount of €18.6 million at the end of the previous financial year.

Cash and cash equivalents totalled €10.1 million at the end of the year (previous year: €4.1 million).

Equity ratio
44.5%

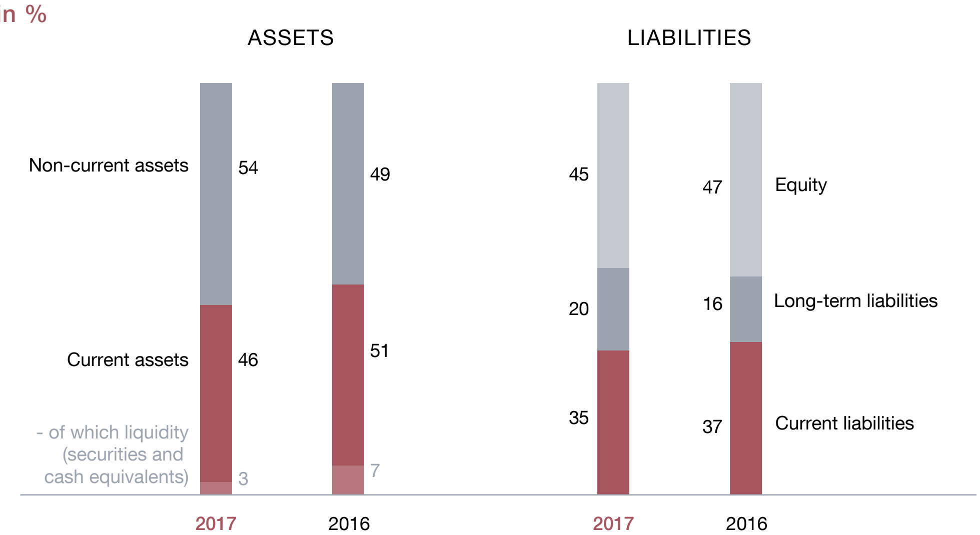
Equity increased significantly from €147.3 million to €155.2 million. The change of €7.9 million is essentially due to the dividend payment of €13.2 million, release of the reserve for financial assets available for sale of €10.7 million and the annual result of €31.0 million. As a result of the significantly higher balance sheet total, the equity ratio was virtually unchanged, and it continues to be high at 44.5% (previous year: 46.8%).

Non-current liabilities increased by €21.5 million to €70.8 million (previous year: €49.3 million). The higher actuarial interest rate for pension obligations resulted in a decrease in pension provisions from €21.0 million to €18.5 million. Non-current financial liabilities increased by €18.7 million to €45.7 million (previous year: €27.0 million). The rise of €0.7 million in deferred tax liabilities to €6.6 million is due to temporary purchase price allocations for the acquired assets and liabilities.

Current liabilities totalled €123.1 million (previous year: €118.5 million), an increase of €4.6 million). Other provisions were increased by €6.1 million and amounted to €31.1 million (previous year: €25.0 million). This was due particularly to an increase in severance payments of €4.1 million and reorganization expense of €1.5 million. Current financial liabilities decreased by €24.1 million to €36.9 million (previous year: €60.9 million). Refinancing by means of a syndicated loan led to a financing structure with a significantly longer-term character. Trade accounts payable rose €6.0 million to €27.9 million (previous year: €21.9 million), solely as a result of the reporting date. Income tax liabilities decreased by €0.5 million to €2.0 million (previous year: €2.5 million).

Other liabilities amounted to €25.2 million (previous year: €8.1 million). €13.2 million of the increase of €17.1 million was due to capital increases which had not been entered in the commercial register at the reporting date, and accordingly cannot be recognized as equity.

BALANCE SHEET RATIOS
in %



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FINANCIAL PERFORMANCE

Principles and objectives of financial management

Financial management in the KAP Group focuses on the procurement of equity and debt capital and on the management of market price risks such as interest rates and currencies. Liquidity is managed in particular via a cash pool system. The objective is to ensure the supply of liquidity at the lowest possible cost at all times. Derivative financial instruments are generally not used.

The Group also strives to optimize net working capital. This makes it possible for cash and cash equivalents to be released and the debt-equity ratio and thus the capital structure to be optimized.

Capital structure

Liabilities to banks amounted to €78.4 million as of December 31, 2017 (previous year: €86.0 million). Of this amount, €45.0 million (previous year: €25.8 million) have a remaining term of more than one year. The share in balance sheet total amounts to 22.5 % (previous year: 27.3 %).

In order to secure long-term financing, a syndicated loan agreement with a term of five years was concluded in the financial year. UniCredit and IKB Deutsche Industriebank AG are the consortium managers. The total loan volume amounts to €115 million. The interest rate depends on Euribor and the net debt-equity ratio. Margins are between 1.5% and 2.7% above Euribor. The minimum yield is 1.5 %.

Significant off-balance sheet commitments in the form of other financial obligations amounted to €10.4 million (previous year: €5.4 million). Of this, the commitments for property, plant and equipment amount to €7.0 million (previous year: €3.6 million) and obligations from rental and leasing contracts €3.4 million (previous year: €1.8 million).

Interest rates on liabilities to banks were between 1.25% and 11.25% (previous year: 1.37% and 13.6%). Of the liabilities to banks, €7.5 million (previous year: €10.7 million) was valued in foreign currencies.

No use was made of credit lines of €59.6 million (previous year: €53.8 million) as at the balance sheet date.

Financial performance

in € thousands	2017	2016
Earnings before interests and income taxes	**37,788**	**25,651**
Depreciation and amortization of asset values of fixed assets (offset against write-ups)	25,955	21,221
Change in provisions	5,780	-2,753
Other non-cash expenses and income	-10,556	-6,482
Results from the disposal of fixed assets and discontinued operations	-24,125	-227
Cash flow from operating activities before changes in assets and liabilities	**34,842**	**37,410**
Changes in inventories, receivables and other assets not attributable to investing and financing activities	-11,602	-530
Changes in payables and other liabilities not attributable to investing and financing activities	8,902	2,528
Cash flow from operating activities before interest and income taxes	**32,142**	**39,408**
Interest received and paid	-2,984	-4,321
Income taxes received and paid	-3,865	-5,958
Cash flow from operating activities	**25,293**	**29,129**
Proceeds from the disposal of property, plant and equipment (including investment property)	1,567	1,661
Investments in property, plant and equipment (including investment property)	-20,952	-24,846
Investments in intangible assets	-3,592	-405
Investments in financial assets	-28	-2,022
Cash inflow from the disposal of consolidated companies	21,990	-
Cash outflow from the acquisition of consolidated companies	-11,851	-
Cash inflow from the sale of securities	18,810	13,274
Cash flow from investing activities	**5,946**	**-12,338**
Proceeds from capital increase	678	-
Dividend paid to shareholders	-13,249	-6,624
Proceeds from the disposal of financial assets	55,499	4,994
Disbursements for the repayment of financial liabilities	-68,624	-11,394
Proceeds from repayments of financial receivables	474	245
Disbursements by granting loans	-	-297
Cash flow from financing activities	**-25,222**	**-13,076**
Net change in cash and cash equivalents	6,017	3,715
Effect of changes in foreign exchange rates, consolidation group and valuation-related changes in cash and cash equivalents	-76	-2,315
Cash and cash equivalents at the beginning of the period	4,138	2,738
Cash and cash equivalents at the end of the period	**10,079**	**4,138**

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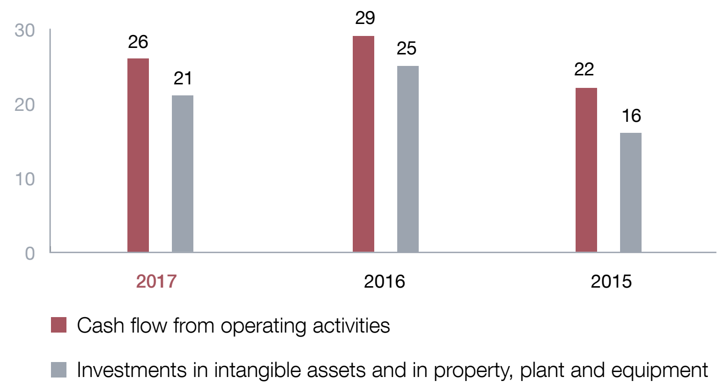
CASH FLOW AND INVESTMENTS
in € millions



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At €25.3 million (previous year: €29.1 million), cash flow from operating activities was lower than in the previous year. The decline was primarily due to the commitment of funds (previous year: release of funds) in net working capital of €2.7 million (previous year: €2.0 million). Interest and income tax payments of €6.8 million led to a significantly smaller net outflow of funds than in the previous year (previous year: €10.3 million).

At €21.0 million (previous year: €24.8 million), investment in property, plant and equipment (including investment property) declined significantly. The increased investment in intangible assets relates primarily to additions in the framework of an asset deal by our IT division. The sale of Kirson resulted in an inflow of €22.0 million. The outflow resulting from the acquisition of new companies to build up the **surface technologies** segment amounted to €13.3 million (previous year: €0). The proceeds from the sale of remaining shares amounted to €18.8 million (previous year: €13.3 million). On balance there was an inflow (previous year outflow) of funds from investment activities of €5.9 million (previous year: €12.3 million).

Cash flow from financing activities of €-25.2 million (previous year: €-13.1 million) is negative primarily as a result of the increased dividend payment of €13.2 million (previous year: €6.6 million) and higher loan repayments of €13.1 million (previous year: €6.4 million).

On the balance sheet date, cash and cash equivalents totalled €10.1 million (previous year: €4.1 million). Of this amount, €0.2 million (previous year: €0.6 million) are subject to a restraint on disposal.

DISCLOSURES BY THE MANAGEMENT BOARD OF KAP BETEILIGUNGS-AG IN ACCORDANCE WITH § 176 PARA. (1) AKTG ON THE INFORMATION IN §§ 289A PARA. (1) HGB IN THE MANAGEMENT REPORT AND § 315A PARA. (1) HGB IN THE GROUP MANAGEMENT REPORT AS AT DECEMBER 31, 2017

Restrictions on voting rights or transfer of shares

The Management Board is not aware of any restrictions relating to voting rights or transfer of shares.

Holders of shares with special rights giving power of control

The company has no holders of shares with special rights giving power of control.

Voting right power of control by employees holding shares in the company

Similarly, there is no voting right power of control by employees holding shares in the company.

Appointment and removal of members of the Management Board, amendments to the Articles of Incorporation

Appointment and removal of members of the Management Board are based on §§ 84, 85 AktG. Pursuant to § 5 of the Articles of Incorporation of July 7, 2017, the Management Board has two or more members. The number is determined by the Supervisory Board. There is no particular provision in the Articles of Incorporation for the appointment and removal of individual or all members of the Management Board. The Supervisory Board is responsible for appointment and removal (§ 84 AktG).

Amendments to the Articles of Incorporation are pursuant to §§ 179, 133 AktG. No use was made in the Articles of Incorporation of the option to impose further requirements for amendments to the Articles of Incorporation. The Annual General Meeting resolves on amendments to the Articles of Incorporation (§§ 119 para. 1, 179 para. 1 AktG). Unless otherwise determined by mandatory statutory provisions, resolutions of the Annual General Meeting are taken by simple majority of votes, and unless statute requires not only a majority of votes but also a majority of capital, by simple majority of all votes present. The Supervisory Board is entitled pursuant to § 12 para. 4 of the Articles of Incorporation of July 7, 2017 to make amendments to the Articles of Incorporation which only affect the wording.

The last amendment to the Articles of Incorporation was made on July 7, 2017 and related specifically to the amendment of the wording of the following provisions: § 7 (Composition, elections, term of office); § 1 (Company name, head office and financial year); § 2 (Object of the company); § 4 (Amount and division of the share capital); § 5 (Composition and rules of procedure); § 10 (Resolutions); § 16 (Chair of the Annual General Meeting). The Articles of Incorporation in the prevailing version are also published on the company's website.

Powers of the Management Board to issue and redeem shares

The powers of the company's Management Board to issue or redeem shares are based exclusively on the corresponding authorizations by the Annual General Meeting.

Acquisition and withdrawal of own shares

The Annual General Meeting on July 7, 2017 authorized the Management Board until July 7, 2022:

a) pursuant to § 71 para. 1 no. 8 AktG, to acquire own shares up to 10% of the share capital at the time of the resolution or – if the lesser value – at the time of exercise of the present authorization. The acquired shares together with other own shares in the company's possession or attributable to it pursuant to § 71d or § 71e AktG may not exceed 10% of the share capital at any time. The authorization may not be used for the purpose of trading in own shares.

b) The acquisition of shares may be carried out at the option of the Management Board via the stock market or by means of a public purchase offer addressed to all shareholders. The acquisition value of the shares (excluding ancillary 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.

c) The authorization takes effect at the close of the Annual General Meeting making the resolution and is valid until July 7, 2022.

d) The Management Board is authorized to resell own shares acquired on the basis of this or prior authorization pursuant to § 71 para. 1 no. 8 AktG or § 71d sentence 5 AktG with the approval of the Supervisory Board and in compliance with the principle of equal treatment (§ 53a AktG) through the stock market or an offer to all shareholders, except for trading purposes. The Management Board is also authorized to sell acquired shares for the purpose of meeting conversion or option rights granted by the company or one of its direct or indirect subsidiaries or for contributions in kind in order to acquire companies, holdings in companies, other assets in the interest of the company's business operations or intellectual property rights. In these cases and to this extent the shareholders' subscription right is excluded.

   The Management Board is further authorized with exclusion of shareholders' subscription rights to sell acquired shares to third parties for cash, provided that the shares sold do not exceed 10% of the share capital, calculated both at the time of entry into force of the present authorization and at the time of exercise of the authorization and the own shares acquired are sold at a price which is not more than 5% (excluding ancillary costs) below the reference price of the company's shares carrying the same rights at the time of sale. The amount of 10% of the share capital in accordance with the preceding sentence must be adjusted by the amount of shares issued or sold in accordance with another corresponding authorization excluding subscription rights in direct or equivalent application of § 186 para. 3 sentence 4 AktG prior to the exercise of the present authorization, if such adjustment is required by statute. The amount must also be adjusted for shares to be issued to meet conversion or option rights from convertible bonds or bonds with warrants or similar profit participation rights, if these bonds or profit participation rights are issued during the term of the present authorization excluding subscription rights in analogous application of § 186 para. 3 sentence 4 AktG. The reference price is the average of the share price (closing auction prices of the company's shares in the General Standard Segment) on the Frankfurt Stock Exchange for the last ten (10) trading days before sale of the shares.

e) The Management Board is further authorized to withdraw own shares with approval of the Supervisory Board without further Annual General Meeting resolution. The withdrawal results in a capital decrease. The Management Board may instead determine that the share capital is unchanged by the withdrawal and that the withdrawal increases the share of the remaining shares in the share capital pursuant to § 8 para. 3 AktG (simplified withdrawal procedure pursuant to § 237 para. 3 no.3 AktG). In this case, the Management Board is authorized to adjust the figure for shares shown in the Articles of Incorporation.

f) Authorization under a) to e) above may be exercised as a whole or in partial amounts, once or several times, individually or jointly through the company or its direct or indirect subsidiaries or by third parties for its account or theirs.

Use of the resolution on the redemption of own shares
No use has yet been made of this resolution.

Authorized capital
The Annual General Meeting on July 7, 2017 further authorized the Management Board with the approval of the Supervisory Board to increase the share capital once or several times to a limit of €3,444,711.92 by issuing up to 1,324,889 new bearer shares with a prorated share of €2.60 each in the share capital for cash and/or contributions in kind (authorized capital 2017). Shareholders must

be given a subscription right. The new shares can also be taken up by one or more of the commercial banks designated by the Management Board or pursuant to § 53 para. 1 sentence 1 or § 53b para. 1 sentence 1 of Section 7 German Banking Act (KWG) with the obligation to offer them to the shareholders (indirect subscription right). However, the Management Board is authorized to exclude the shareholders' subscription right with the approval of the Supervisory Board:

(i) for fractional amounts in the capital increase for cash and/or contributions in kind arising out of the subscription ratio;

(ii) if necessary in order to give bearers or creditors of the bonds with option or conversion rights or obligations issued now or in the future by the company or its direct or indirect subsidiaries a subscription right to new shares to the extent that they would have after exercise of their conversion or option rights or compliance with conversion or option obligations;

(iii) to the extent that the new shares are issued in the event of a capital increase against contributions in kind for the purpose of acquiring companies, parts of companies or participations in companies or other assets;

(iv) if in the event of capital increase for cash the prorated share of the new shares in the share capital does not exceed 10% of the share capital at either the time of entry into force of the authorization or the use of this authorization and the issue amount of the new shares is not materially lower than the stock market price of shares of the company with the same rights already listed at the time of final determination of the issue amount. If during the term of this 2017 Authorized Capital, use is made of it up to its full utilization by other authorizations to issue or sell shares in the company or issue rights which make possible or obligate subscription to shares in the company and the subscription right pursuant to or equivalent to § 186 para. 3 sentence 4 AktG is excluded, the above 10% limit must be adjusted accordingly; or

(v) if the new shares are issued to individuals who are employed by the company or an affiliate company or are members of the company's Management Board or organs of a company affiliated with the company; if new shares are issued to members of the company's Management Board, the company's Supervisory Board is authorized to exclude the shareholders' subscription rights.

The Management Board is authorized with the approval of the Supervisory Board to determine the further details of the capital increase and its execution, specifically the rights attached to the shares and conditions for issue. The Supervisory Board is authorized to amend the wording of the Articles of Incorporation in accordance with the use of 2017 Authorized Capital, or, if the 2017 Authorized Capital is not utilized fully or at all by July 7, 2022, after the expiration of the authorization.

Use of the resolution on 2017 Authorized Capital

In the past 2017 financial year, the Management Board and Supervisory Board resolved on the issue of new shares as a capital increase in kind of a total of 6.09 % of the share capital (403,400 shares).

In detail, the issue of the new shares up to 5.57 % was exclusively for the purpose of acquiring companies, parts of companies or participations in Metallveredlung Döbeln GmbH, Oberflächentechnik Döbeln GmbH and Gt Oberflächen GmbH (368,945 shares) and 0.22 % to finance the associated acquisition costs; finally, 0.30 % of the shares were issued to the Management Board (20,000 shares).

The increases were entered in the company's commercial register with legal effect in the current financial year.

Agreement in the event of a takeover offer

There are no agreements by the company with the members of the Management Board or with employees on compensation in the event of a takeover offer. The same applies to material agreements by the company subject to a change of control as a result of a takeover offer.

The disclosures in accordance with § 315a no. 1, 3 and 9 of the German Civil Code have been included in the consolidated financial statements.

RESEARCH AND DEVELOPMENT

The basis for our company's profitable growth and competitiveness is products which offer our customers added value. This is expressed in the use of new materials, new applications or even more efficient production processes. Research and development of new products with attractive potential margins will be our focus in future. At the same time we will coordinate R&D efforts more closely within the newly formed segments in order to achieve synergies and clear product differentiation between companies and to use our financial resources as efficiently as possible.

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

In 2017 our subsidiary MEHLER ENGINEERED PRODUCTS (MEP) continued to work on developing technical fibers with combinations of fiber raw materials, yarn and weave structure and coating systems exactly coordinated with customers. Each of these individual components is a topic of ongoing development work at MEP. Properties such as high tensile strength, long useful life, good resistance to fatigue, low heat development, good adhesion to rubber, good chemical resistance, good thermal resistance, low working losses and high rigidity are some of the properties to be satisfied in future for the automotive and subcontracting industries with new raw materials. In future particularly high performance yarn structures will be important. Customers' main requirements are particularly reducing weight while maintaining stability, and also lower-cost yarns. MEP meets these increased requirements by further developing hybrid fibers and establishing alternative fiber materials, e.g. carbon. Several development projects were launched in the year under review and are now in the testing phase with customers. A new development in the textile area is extremely promising.

MEP carbon cordage is used for example in power transmission belts, where elongation must be held to an absolute minimum. Hybrid yarn structures help combine physical and chemical properties of different raw materials. They also help lower prices of fiber products with high-performance new fiber materials combined with cheaper chemical fibers. A typical example is the aramid + polyamide hybrid yarn, used in the tire industry. The hybrid minimizes increase in diameter at high speeds, and keeps the inner tire layers of steel and other materials in place. This ensures greater driving safety at high speeds. This hybrid yarn combines high tensile strength of aramids with high elongation of polyamide.

OLBO & MEHLER Tex (OMT) carries out its development activities at the production facility in Portugal. In 2017 the focus was again on the development and launch of highly fire resistant textile fabrics for use in the construction industry. Fabric testing is in progress and the first products are in application. The very high fire resistance has already been demonstrated. The benefit to the customer is the ability to meet the most demand fire protection classes while reducing costs dramatically.

Caplast is our specialist for high-quality coating of matted fabrics, films, woven fabrics and even paper. The newly-developed “Blackout” film described last year is almost 100% opaque to light and used in agriculture, and the “intelligent” under-roof sheeting which contain a vapor barrier has been well received by the market. New products were again developed to market maturity in the past financial year, and are meeting lively demand. For example, Caplast has developed a PVC-free film which is produced without plasticizer but still has all the properties of conventional films. It has shown its outstanding practical viability for swimming pool covers in particular. Perhaps even more significant commercially is the development of a new construction covering which is used particularly for protection against water. These sealing membranes are very thin but their performance parameters in terms of durability and impermeability match the thicker products previously on the market. Their lower thickness results in substantial cost advantages to users.

The products “Elite” and “Ultimate Border”, successfully introduced in the year under review by our subsidiary Elbtal Plastics, were presented in detail in our last annual report, and are an impressive demonstration of how an imaginative development can result in a unique selling point. “Island Dreams” is another Elbtal product – with the potential to consolidate this market position. This is a swimming pool film which has unequalled resistance to spots, greater UV resistance and a surface which is easy to clean, to which it adds a “beach entrance haptic”. It gives the feeling of entering the water at the seaside. Elbtal is also the only manufacturer worldwide to develop a PVC-free swimming pool film certified for child tolerance.

The GM Tec group consists of highly-specialized metal and plastics processors which have not only had a decisive influence on customer product portfolios through their increased R&D activity, but have also produced developments e.g. in their specialty area of gear tooth forming which recently led to six patent applications. For example, a project was successfully completed with Bosch to reduce sound emission by gears. The development of a new surface structure also reduced weight. This is just one example of the special expertise in this area. The latest successes in R&D also lead to a situation where GM Tec is increasingly being flagged as a preferred development partner. For example, it independently came up with a development in the field of independent heaters for its customer Eberspächer, which is being integrated into its products. The same applies to products in a new braking system specifically for the requirements of autonomous driving, where we were involved as a development partner for ZF Friedrichshafen.

In their R&D activities, our companies in the new **surface technologies** segment are developing completely new processes for surface coating which precisely meet customer requirements for properties. This particularly applies to constantly rising anticorrosion requirements and new challenges from electromobility, which is fundamentally raising demand for coatings. Coating solutions have also been developed for product groups where a uniform coating meeting the highest requirements was previously not possible to achieve at an acceptable cost. This applies particularly to cast components with difficult geometry, high graphite content or other contamination. A completely new periphery was developed for the coating plants, new stands were designed, and experiments were carried out, for example with a dual internal anode technique. The results to date are very promising, and demonstrate the high development strength.

The remaining investment companies also conduct research and development on an ongoing basis to expand or specialize the scope of applications of their products. Substantial amounts were invested in R&D in the field of IT services, which has led in the past to successful products. Competence in the fields of big data and data analytics will be considerably expanded. A significant project for the German Federal Government has just been won for implementing an EU Directive on recording and analyzing all air passenger data. This prestigious project clearly demonstrates the high technical competence at it-novum in this highly innovative area.

EMPLOYEES

	12/31/2017	12/31/2016
Germany	1,602	1,325
Europe	1,003	1,029
North America	154	80
Asia	97	162
South Africa	1	1
Total	**2,857**	**2,597**

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As at December 31, 2017, the KAP Group employed 2,857 people (previous year: 2,597). The annual average was 2,724 (previous year: 2,616) people, of which 1,452 (previous year: 1,351) were in Germany and 1,272 (previous year: 1,265) were abroad. Personnel expenses in the Group in 2017 amounted to €97.7 million (previous year: €90.1 million).

The decision to close the Gear Motion facility at Haslach reduced employment in the year under review. Some 100 employees were affected. All measures were implemented in a socially acceptable way on the basis of a reconciliation of interest and social plan agreed with the employee representatives. We have transferred part of the production based in Haslach to our Gear Motion facility in Oroszlány, Hungary, in agreement with our customers.

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.

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, our subsidiary it-novum is cooperating with the Fulda Chamber of Trade and Industry, the Konrad-Zuse school in Hünfeld and Würzburg University. Students here have the opportunity to write their final assignment or thesis.

Despite these measures, we are unable to meet demand for IT specialists in Germany, so we are cooperating with service providers in Spain and Estonia to have development work carried out in these countries. The potential of highly qualified experts is available in these countries in an adequate cost context, which enables us to make up for the corresponding shortage in Germany.

At one of our investments in the field of **automotive components**, we took the approach of hiring foreign skilled workers in the field of metal processing. Personal contacts among the employees enabled us to recruit some 80 qualified and highly motivated product workers in Romania and bring them to Germany. Effective support with the search for housing, language learning and relocating the family enabled us to integrate the Romanian employees and initiate what we hope will be a long-term employment relationship.

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 27 different nations in our subsidiaries. We find this heterogeneity enriching.

The proportion of female employees in our company varies widely between 3% and 73% of the workforce. Women are not yet adequately represented in the technical and scientific fields that are important to us. However, there are already a number of women in management positions in the commercial area and distribution and quality management. This affects the equality between men and women. 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 holding company.

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. All subsidiaries are required to report regularly on accidents. Group head office tracks in great detail whether and how often accidents happen and what measures are taken to prevent accidents.

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 metric used to determine the variable remuneration element is the respective EBITDA. The Supervisory Board reviews the remuneration system in respect of the structure and level of remuneration of the Management Board at regular intervals.

KAP Beteiligungs-AG has been operating a virtual share option program with cash settlement in favor of a Management Board member since 2017.

At the beginning of the term of office on August 1, 2017, the Management Board member was granted a one-off amount of 100,000 virtual stock options with a four-year vesting period. Under the program, the beneficiary will receive a claim to a cash payment from the company when the option is exercised. The exercise date is July 31, 2021. The claim to a cash payment corresponds to the difference between the average market value of the past 20 trading days before the option is exercised and the underlying value of €30. Depending on the level, the claim is limited to €40 per option, adjusted for dividends paid out in the meantime and any dilution effects from capital increases.

As capital increases took place between August 1, 2017 and the accounting date, the number of virtual stock options increased to 105,871 units. On the accounting date December 31, 2017 the residual term of the options stood at 43 months until the exercise date. The liability amounts to €99 thousand (previous year: €0 thousand).

Individualized Management Board remuneration for the financial year

in € thousands	Fixed remuneration	Variable remuneration	Other remuneration	2017	Fixed remuneration	Variable remuneration	2016
Guido Decker	109	160	-	269	-	-	-
Dr. Stefan Geyler	233	75	233	541	307	100	407
Fried Möller	-	-	-	-	270	-	270
André Wehrhahn	312	100	312	724	77	55	132
Total	**654**	**335**	**545**	**1,534**	**654**	**155**	**809**

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In December 2017, Board member André Wehrhahn was released from his duties. A provision for current executive board remuneration of €312 thousand and a bonus of €100 thousand was create for the period of indemnity. Dr. Stefan Geyler was released from his duties from May 2017 to December 31, 2017. A severance payment of €158 thousand was paid in the financial year 2017. In addition, Dr. Stefan Geyler received compensation in the amount of €75 thousand and a bonus of €75 thousand.

REMUNERATION OF THE SUPERVISORY BOARD

Remuneration system

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

Supervisory Board remuneration in the 2017 financial year

The Supervisory Board has six members. Each member of the Supervisory Board received €5,000 in the 2017 financial year (previous year: €5,000), the Chairman of the Supervisory Board €7,500 (previous year: €7,500).

As a member of the Supervisory Board, Roy Bachmann, works for RB Capital Ltd, Guernsey. RB Capital Ltd, Guernsey invoiced a total of €552 thousand for brokerage and consulting services in the financial year 2017, of which €516 thousand will be paid in shares of KAP Beteiligungs-AG.

RISK MANAGEMENT

Risk management system

The business segments 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: we have completely restructured it during the year under review and further improved it with the use of an IT-supported system. We record so-called gross risks in the four areas of strategic risks, company-specific risks, finance and accounting risks, and compliance risks, and multiply these by their probability of occurrence. This gives us the net expectation for the potential risk. 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.

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.

STRATEGIC RISKS

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.

Several of our subsidiaries supply the automotive industry as Tier II suppliers. Following the “diesel scandal”, which made world headlines, unit sales of diesel passenger cars have fallen significantly, and it is not foreseeable what additional political measures will be taken which could further weaken unit sales of the group of passenger cars.

Apart from the general sales risk which all companies in this segment are subject to, we do not see any specific risk to our directly affected subsidiaries. First, they have expanded their sales into further industries, and second, in the special range of diesel injectors, significant numbers of a completely new generation of passenger car injectors will be produced in the 2019/2020 financial year, and the main business is producing truck injectors. This area is not an issue of the current debate.

Corporate governance

Risks arising from the management of our Group companies are the result of the decentralized organizational structure of 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. Fundamental here are uniform controlling, compliance and risk management systems, implemented at both holding company and subsidiary level. These systems allow management to identify undesirable trends at any time, and the Management Board is in a position to follow these up.

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.

Portfolio 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.

A residual risk cannot be entirely excluded here, particularly if companies are involved in a segment where the market entry barriers for new companies are low.

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.

COMPANY-SPECIFIC RISKS

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 now largely 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. Several subsidiaries have developed entirely new product groups, which they have used to expand their customer base accordingly.

Materials management

In the **engineered products** and **automotive components** and **surface technologies** 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 try to 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. We are also working on a new group HR development strategy in which the goals and measures are described and defined for all companies.

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 RISKS

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 KAP Beteiligungs-AG. To cover demand for finance in the long term, we concluded a syndicated loan agreement for the next five years in the year under review, thus taking advantage of the currently favorable interest rate environment.

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 KAP Beteiligungs-AG as a cash pool leader.

With regard to external financing sources we have paid attention to first-class credit rating. Besides our bank partners in the loan syndicate, we are using the services of local financial institutions to secure the business of our facilities in China and India. This increases flexibility and reduces current currency risks. 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.

There are also liquidity reserves in the form of bank deposits to cover short-term refinancing need.

Our equity ratio of 45% has a positive impact on our creditworthiness and also reduces our financing risk.

Interest rate risk

Part of our financing consists of long-term repayment loans. We also use current accounts in the short term. The agreements are essentially based on Euribor as the base rate. This may lead to interest-rate fluctuations, particularly in the short term.

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.

Derivative financial instruments and hedging transactions in current operations

The KAP Group uses letters of credit rather than derivatives to limit interest rate and currency risks arising from operating activities. They reduce risks from planned delivery and service transactions. Forward exchange futures are used to a limited extent to hedge against currency risks.

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 payment obligations by contractual 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).

Information in accordance with § 315 para. 4 of the German Commercial Code (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.

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. In addition, training is offered and held continuously.

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.

COMPLIANCE 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 on 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 market 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.

SUMMARIZED ASSESSMENT

In the 2017 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.

NON-FINANCIAL GROUP STATEMENT 2017

With the enactment of Directive 2014/95/EU of the European Parliament and European Council “Guidelines on non-financial reporting” into German law, most capital market oriented companies in Germany are obliged from the 2017 financial year to report annually on the issues of environmental, social and employee issues, compliance with human rights and combating corruption and bribery. For the 2017 financial year, KAP Beteiligungs-AG has made a non-financial group statement pursuant to § 315b HGB, which is published at the same time as the company report as a separate non-financial group report. The 2017 non-financial group report of KAP Beteiligungs-AG is also on the company website.

DECLARATION ON CORPORATE GOVERNANCE AND THE CORPORATE GOVERNANCE REPORT

The declaration on corporate governance in accordance with § 315d 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 kap.de/en/company/corporate-governance/compliance-statements.html.

EVENTS AFTER REPORTING PERIOD

The capital increases amounting to a total of €13,694 thousand agreed in the 2017 financial year had all been recorded in the Commercial Register by March 29, 2018.

OUTLOOK AND FORECAST REPORT

It is our goal to achieve an attractive dividend and growth in value for our shareholders through profitable growth. Besides other key ratios, in reviewing our segments and companies we focus primarily on sales and EBITDA margin (earnings before interest, taxation, depreciation and amortization), which should be over 10% of sales for the group, its segments and companies. Invested capital which in our view is not earning a sufficient return will be released and invested in companies with existing target returns, or in companies where operating improvements make these returns possible in the short term.

To be rewarded by the stock market, in future we will become more transparent and communicate regularly. We have defined a clear strategy which positions us as a highly profitable industrial holding company with clearly-defined segments. We intend either to grow in existing segments and improve these permanently or to identify new segments and develop these continuously in the context of buy-and-build, so that all segments are roughly equal in size. Segments we feel are not longer sufficiently attractive will be divested, and the capital released will be reinvested in segments with higher returns and free cash flow. For shareholders it is accordingly clearly understandable why portfolio changes were made. In addition we have broken the portfolio down into the following more detailed segments, and will align segment reporting with these operating segments in future: **engineered products** (technical textiles) – MEP and OMT. **flexible films** – CaPlast, Elbtal, Riflex, Steinweg and NOW Contec and Convert. **precision components** – Gear Motion, Geiger and Präzisionsteile Dresden. **surface technologies** (surface technologies and refinements) – GtO, OFT and MVD. **it/services** – it-novum and MEHLER Engineering und Service GmbH.

For the current financial year we expect a continuing positive trend in business, with a new slight increase in revenue based on the existing consolidated group. We also plan further improvements in margins, and intend to exceed the target of an EBITDA margin of 10%. We expect disproportionate growth in normalised EBITDA from the base of €42.1 million in the previous year. However, excessive rises in raw materials prices and staff shortages could negatively affect the margin.

In accordance with the new segments we intend to remain above €160 million in sales at **engineered products** (previous year: €164.9 million) and take EBITDA above €15 million (previous year: €12.4 million), which would mean a rise of 20%. We expect the change in product mix due to the cooperation with Beaver and the turnaround at the facility in China to lead to a clear increase in margin, which we intend to further improve in the coming years. At the same time we are reviewing possible acquisitions.

In **flexible films** we intend to exceed €90 million in sales (previous year: €107.8 million) with an EBITDA of over €9 million (previous year: €11.3 million). This equates to an 8% increase in revenue and 32% in profitability, after adjusting for the figures for Kirson. While we expect only a moderate increase at CaPlast, the measures initiated should lead to a key contribution by Elbtal and Riflex in particular to increasing results on a comparable basis to the prior year without Kirson. We are seeking to expand this segment further, both organically and through acquisition, and will carefully review corresponding opportunities. At the same time we intend to improve and stabilize margins.

In the **precision components** segment, we expect the current year to be only slightly weaker, with revenue of over €115 million (previous year: €121.9 million), but with a significant increase both in EBITDA to over €13 million (previous year: €9.1 million), and in the EBITDA margin as well.

surface technologies will be able to contribute fully to revenue for the first time with over €25 million (previous year: €1.1 million). We expect EBITDA of over €4.0 million (previous year: €-0.4 million), with a disproportionately high contribution to the EBITDA margin. This shows very well the implementation and resulting added value of the above strategy. We plan to expand this segment significantly in the current year through further acquisitions.

The **it/services** segment is still comparatively small with planned increases of revenue of over €20 million (previous year: €15.5 million) and EBITDA of over €2.2 million (previous year: €2.0 million), but ties up hardly any capital (an “asset light” model) with disproportionately high margins. It is a very good counterpart to the segments with primarily productive assets which we intend to expand significantly. We see attractive opportunities in the big data and data analytics area to grow organically and through acquisitions.

Departing from the assumption made in the previous year, in 2018 we plan to invest in property, plant and equipment slightly above the level of depreciation. The main measures we are planning are in the **engineered products** segment, with investments for renewal and expansion at domestic and foreign locations, and in the **precision components** segment with expansions in capacity to meet the increased demand.

In the **all other segments** segment, discussions on our Augsburg development project are at an advanced stage. We hope to be able to complete the sale in the 2018 financial year.

Our debt is very moderate, and with the existing financing framework we have sufficient funds to finance the acquisitions under consideration. In addition, the release of capital with low margins can contribute further to financing.

Fulda, April 30, 2018

KAP Beteiligungs-AG

Guido Decker
Chairman of the Management Board

SUPERVISION AND COUNCIL

Dear Shareholders,

Our confidence for further positive development in the coming years remains intact. In the 2017 financial year, the Supervisory Board continued to focus on the operational development of the company portfolio and on the continuing support of the Management Board in reviewing possible acquisitions. We worked closely with the Management Board.

In addition, we were always extensively and promptly informed of possible acquisitions that were under review in the field of electroplating and ultimately agreed to the takeover of all shares in the companies Gt Oberflächentechnik GmbH, Metallveredlung Döbeln GmbH and Oberflächentechnik Döbeln GmbH. We were also informed in detail of the successful negotiations with the Saint Gobain Group on the sale of all shares in Kirson Industrial Reinforcements GmbH, Neustadt/Donau. All the measures planned and implemented by the Management Board were discussed in detail, in part critically, and then supported unanimously.

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, strategy 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 2017 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 6, 2017, the Management Board presented the provisional figures for the financial year 2016 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, we were informed in detail of the business development and prospects of the subsidiary it-novum, and specifically of the growth opportunities. This included a review of the existing product portfolio and customer structure.

After that, we 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. Finally, we discussed the unsatisfactory development at Bebusch at the Haslach site and were given a review of the options available to improve the overall situation. We also noted the status of the compliance management system.

An extraordinary meeting of the Supervisory Board was held on April 24 to deal with the departure from the company of Management Board member Dr Stefan Geyler. We resolved to delegate a member from the Supervisory Board – Mr Fried Möller – to the Management Board as a deputy member. It was also decided to propose the appointment of Mr Uwe Stahmer to the District Court as a further member of the Supervisory Board. This satisfied the requirement in the company's Articles of Incorporation of a minimum of two Management Board and three Supervisory Board members.

Our second regular meeting of the financial year took place on April 26, 2017. In this meeting we discussed the consolidated financial statements and the annual financial statements for 2016 in the presence of the auditor elected at the Annual General Meeting on August 26, 2016, 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. We had previously received an exact explanation from the Management Board of the risk management system in the group and took note of the report. We also received a detailed explanation of the further measures to improve the compliance management system. The subsequent discussion about the dividend proposal to the Annual General Meeting took up much time, and we finally agreed on €2 per share.

The Management Board then presented the business figures for the first quarter of 2017 and the draft interim report on the business development of the first three months of the 2017 financial year. The Management Board touched on the successful development of nearly all subsidiaries.

Due to its urgency, the third meeting of the financial year was held in circulation. In addition to the invitation announcement for the Annual General Meeting on July 7, 2017, the proposals to the Annual General Meeting on the new appointment of the Supervisory Board were also adopted.

At the fourth meeting on July 7, 2017, we first held very in-depth discussions on the business performance in the first five months of the financial year, which the Management Board had previously presented to us, in order to obtain a more detailed overview of the individual segments. In conclusion we were given a preview of the full 2017 financial year, and a report from the Management Board on the status of current M&A activities. This included a review of the impending sale of the Kirson investment company to Saint Gobain, followed by information on the acquisition of Gt Oberflächentechnik GmbH, Metallveredlung Döbeln GmbH and Oberflächentechnik Döbeln GmbH. We approved the acquisition of the companies.

After brief discussion of the topics for the impending Annual General Meeting, the Management Board informed us of the company's financial situation, and specifically the state of debt, which continues to be satisfactory. Finally, the calendar of financial events was updated and agreed.

The Board held its constitutive meeting following the Annual General Meeting on July 7, 2017. The newly-elected members appointed Mr Ian Jackson as chairman and Mr Florian Möller as deputy chairman from among their membership.

On July 31, 2017, the resolution to appoint Mr Guido Decker as a further member of the Management Board and its chairman was taken in circulation.

We approved by circulation the syndicated loan agreement negotiated by the Management Board for up to €145 million on August 25, 2017.

The ongoing business development for the 2017 financial year was discussed at the beginning of the last Supervisory Board meeting of the past financial year on December 7, 2017. 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** as well as the covenants report formed a major part of this. After intensive discussion, we expect continuing positive development for 2018 as well.

Management Board chairman Guido Decker had also presented the new strategy for our corporation. This is broken down into operations, capital market, organization and M&A. After several questions, this was unanimously approved. We were additionally given a review of further acquisition efforts and a report on the status of the compliance management system.

Finally, the key data for the 2018-2020 planning for the individual subsidiaries was presented to us, which we took note of and approved. The financial calendar for 2018 as well as the Declaration of Conformity with the German Corporate Governance Code in the valid version of February 7, 2017 were adopted. The election of Mr Fried Möller as new deputy chairman of the Supervisory Board was unanimously approved.

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 2017.

A summary presentation of the KAP Beteiligungs-AG corporate governance is published on our homepage, as is the Declaration of Conformity of December 2017.

Financial statements and consolidated financial statements

The annual financial statements, together with the management report for 2017, as well as the consolidated financial statements with explanatory notes and the Group management report for 2017, including the accounting, were audited by the auditor elected at the Annual General Meeting on July 7, 2017, namely BDO AG Wirtschaftsprufungsgesellschaft, Hamburg. The auditor raised no objections and issued an unqualified audit opinion.

For the 2017 financial year, the financial statements, consolidated financial statements, management report and the Group management report, as well as the proposal for the appropriation of profit, were presented to the Supervisory Board in accordance with § 170 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 on April 25, 2018. 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 2017. 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 had several personnel issues to deal with in the year under review. Dr Stefan Geyler resigned from his Management Board position with effect from April 24, 2017 and left the company on the same date. Effective December 21, 2017 Management Board member Mr André Wehrhahn also left the company. We thank them both for their services to our corporation, and their contribution to its successful development.

Besides the temporary appointment of Supervisory Board member Mr Fried Möller as deputy member of the Management Board, we were happy to have appointed Mr Guido Decker as a new member of the Management Board from August 1, 2017. Mr Decker was appointed chairman of the Management Board.

The Supervisory Board expresses its thanks and appreciation to the Management Board for its commitment and achievements in the 2017 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. By resolution of the Annual General Meeting on July 7, 2017, the number of members of the Supervisory Board was increased to six. Besides the members re-elected by the Annual General Meeting, Mr Pavlin Kumchev, Mr Roy Bachmann and Mr Uwe Stahmer were elected as new members of the Supervisory Board. On October 30, 2017, our member Mr Florian Möller resigned from his office and was replaced by Mr Fried Möller on December 7, 2017.

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

Fulda, April 2018

Yours faithfully

Ian Jackson
Chairman of the Supervisory Board

CONSOLIDATED FINANCIAL STATEMENTS IFRS

Consolidated Statement of Income

From January 1 to December 31, 2017

in € thousands	Note	2017 KAP Group	2016 KAP Group
Revenue	(29)	407,522	385,782
Changes in inventories and own work capitalized		4,254	-331
Total performance		**411,776**	**385,451**
Other operating income	(30)	13,128	11,951
Cost of materials	(31)	-239,425	-218,410
Personnel expenses	(32)	-97,704	-90,125
Depreciation and amortization of intangible assets, property, plant and equipment and investment property	(33)	-25,955	-21,221
Other operating expenses	(34)	-56,528	-49,659
Result from the disposal of fixed assets and liabilities	(35)	23,047	-
Operating result		**28,339**	**17,987**
Net interest income	(36)	-3,851	-4,717
Other financial income	(37)	8,168	7,248
Financial result		**4,317**	**2,531**
Earnings before income taxes		**32,655**	**20,518**
Income taxes	(38)	-2,962	-8,182
Result of discontinued operations	(39)	1,282	416
Income taxes from discontinued operations		-	-
Group annual result after taxes		**30,975**	**12,751**
Profit share of non-controlling interests	(40)	46	-671
Consolidated annual result of KAP Beteiligungs-AG shareholders		**31,021**	**12,080**
Earnings per share (in €)	**(41)**	**4.68**	**1.82**
Diluted earnings per share (in €)	**(41)**	**4.68**	**1.82**

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

Consolidated Statement of Comprehensive Income/Loss

as at December 31, 2017

in € thousands	Note	2017 KAP Group	2016 KAP Group
Consolidated annual result after taxes		**30,975**	**12,751**
Unrealized gains from currency translation		- 390	435
Unrealized gains from financial assets available for sale	(45)	- 10,748	- 6,877
Items which may be reclassified in the income statement in the future		**- 11,139**	**- 6,442**
Actuarial gains from defined benefit plans	(22)	2,155	- 2,050
Deferred taxes on actuarial gains/losses from defined benefit plans	(38)	- 646	615
Items which will not be reclassified in the income statement in the future		**1,508**	**- 1,435**
Other result after taxes		**- 9,631**	**- 7,877**
Thereof other result after taxes attributable to non-controlling interests		297	- 11
Thereof result after taxes attributable to shareholders of KAP Beteiligungs-AG		- 9,928	- 7,866
Total comprehensive income		**21,345**	**4,875**
Thereof total result attributable to non-controlling interests attributable to total comprehensive income		252	661
Thereof group total result attributable to shareholders of KAP Beteiligungs-AG		21,093	4,214

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

Consolidated Statement of Financial Position

as at December 31, 2017

ASSETS

in € thousands	Note	12/31/2017	12/31/2016
FINANCIAL ASSETS			
Non-current assets			
Intangible assets	(7)	23,015	1,741
Property, plant and equipment	(8)	152,789	136,856
Investment property	(9)	4,881	5,741
Financial assets accounted for using the equity method	(10)	-	2,010
Other financial assets	(11)	1,260	1,232
Deferred tax assets	(12)	6,097	6,743
		188,042	**154,323**
Current assets			
Inventories	(13)	74,041	72,481
Trade receivables	(14)	64,300	56,668
Income tax assets	(15)	2,329	1,625
Other receivables and assets	(16)	10,294	6,147
Securities	(17)	-	18,624
Cash and cash equivalents	(18)	10,079	4,138
		161,044	**159,683**
Long-term assets held for sale	(19)	**-**	**1,029**
		349,085	**315,034**

LIABILITIES

in € thousands	Note	12/31/2017	12/31/2016
EQUITY AND LIABILITIES			
Equity and reserves			
Subscribed capital		17,224	17,224
Capital reserve		48,811	48,966
Reserves		-15,088	-2,174
Retained earnings		98,874	81,269
KAP Beteiligungs-AG shareholders' equity		**149,822**	**145,285**
Non-controlling interests		5,365	2,008
	(20)	**155,187**	**147,293**
Long-term liabilities			
Provisions for pensions and similar obligations	(22)	18,480	20,958
Non-current financial liabilities	(23)	45,733	26,970
Deferred tax liabilities	(12)	6,603	733
Other non-current liabilities	(24)	-	607
		70,815	**49,269**
Current liabilities			
Other provisions	(25)	31,150	25,004
Current financial liabilities	(23)	36,939	60,948
Trade payables	(26)	27,850	21,937
Income tax liabilities	(27)	1,984	2,475
Other liabilities	(28)	25,159	8,109
		123,083	**118,473**
		349,085	**315,034**

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

Consolidated Statement of Cash Flows

as at December 31, 2017

in € thousands	2017	2016
Earnings before interests and income taxes	**37,788**	**25,651**
Depreciation and amortization of asset values of fixed assets (offset against write-ups)	25,955	21,221
Change in provisions	5,780	-2,753
Other non-cash expenses and income	-10,556	-6,482
Results from the disposal of fixed assets and discontinued operations	-24,125	-227
Cash flow from operating activities before changes in assets and liabilities	**34,842**	**37,410**
Changes in inventories, receivables and other assets not attributable to investing and financing activities	-11,602	-530
Changes in payables and other liabilities not attributable to investing and financing activities	8,902	2,528
Cash flow from operating activities before interest and income taxes	**32,142**	**39,408**
Interest received and paid	-2,984	-4,321
Income taxes received and paid	-3,865	-5,958
Cash flow from operating activities	**25,293**	**29,129**
Proceeds from the disposal of property, plant and equipment (including investment property)	1,567	1,661
Investments in property, plant and equipment (including investment property)	-20,952	-24,846
Investments in intangible assets	-3,592	-405
Investments in financial assets	-28	-2,022
Cash inflow from the disposal of consolidated companies	21,990	-
Cash outflow from the acquisition of consolidated companies	-11,851	-
Cash inflow from the sale of securities	18,810	13,274
Cash flow from investing activities	**5,946**	**-12,338**

in € thousands	2017	2016
Proceeds from capital increase	678	-
Dividend paid to shareholders	-13,249	-6,624
Cash inflow from borrowings	55,499	4,994
Disbursements for the repayment of financial liabilities	-68,624	-11,394
Proceeds from repayments of financial receivables	474	245
Disbursements by granting loans	-	-297
Cash flow from financing activities	**-25,222**	**-13,076**
Net change in cash and cash equivalents	6,017	3,715
Effect of changes in foreign exchange rates, consolidation group and valuation-related changes in cash and cash equivalents	-76	-2,315
Cash and cash equivalents at the beginning of the period	4,138	2,738
Cash and cash equivalents at the end of the period	**10,079**	**4,138**

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

For explanations of the Consolidated Statement of Cash Flows, see note 48

Consolidated Statement of Changes in Equity

as at December 31, 2017

in € thousands	Subscribed capital	Capital reserve	Currency difference	Financial assets available for sale
12/31/2015		**48,966**	**-20,338**	**17,626**
Group annual result	-	-	-	-
Other result before taxes	-	-	435	-6,877
Deferred taxes on other result	-	-	-	-
Total result	**-**	**-**	**435**	**-6,877**
Capital reduction	-	-	-	-
Dividends	-	-	-	-
Change in consolidation group	-	-	-	-
Other changes	-	-	-	-
12/31/2016	**17,224**	**48,966**	**-19,903**	**10,749**
Group annual result	-	-	-	-
Other result before taxes	-	-	-618	-10,749
Deferred taxes on other result	-	-	-	-
Total result	**-**	**-**	**-618**	**-10,749**
Capital reduction	-	-	-	-
Dividends	-	-	-	-
Change in consolidation group	-		-	-
Other changes	-	-155	-	-
12/31/2017	**17,224**	**48,811**	**-20,521**	**0**

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

For explanations of Equity see note 20.

Reserves						
Actuarial gain/ losses	Other	Total	Consolidated retained earnings	KAP Shareholders' equity	Non-controlling interests	Total equity
-5,012	**13,418**	**5,693**	**75,830**	**147,713**	**3,772**	**155,187**
-	-	-	12,080	12,080	671	12,751
-2,034		-8,476		-8,476	-15	-8,491
610	-	610	-	610	5	615
-1,424	**-**	**-7,866**	**12,080**	**4,214**	**661**	**4,875**
-	-	-	-	-	-1,755	-1,755
-	-	-	-6,624	-6,624	-	-6,624
-	-	-	-	-	-	-
-	0	0	-17	-17	-669	-686
-6,436	**13,418**	**-2,174**	**81,269**	**145,285**	**2,008**	**147,293**
-	-	-	31,021	31,021	-46	30,975
2,054	-	- 9,313	-	-9,313	328	-8,985
-616	-	- 616	-	-616	-30	-646
1,438	**-**	**-9,929**	**31,021**	**21,093**	**252**	**21,345**
-	-	-	-	-	-	-
-	-	-	-13,249	-13,249	-	-13,249
-	-2,986	-2,986	-146	-3,132	3,122	-10
-	-	-	-21	-176	-15	-191
-4,998	**10,432**	**-15,086**	**98,874**	**149,822**	**5,366**	**155,187**

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Notes to the Consolidated Financial Statements

FOR THE 2017 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-AG or KAP Group has prepared the consolidated financial statements as of December 31, 2017 in accordance with the International Financial Reporting Standards (IFRS) applicable in the EU Member States and the additional requirements of § 315e 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, 2017. 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 (in € thousands) unless otherwise stated. Due to the representation in € thousands, rounding differences may occur in the summation.

KAP Beteiligungs-AG is a listed industrial holding company with headquarters in Fulda that holds stakes in medium-sized companies.

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 28 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 one investment 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:

	12/31/2016	Additions	Disposals	12/31/2017
Germany	25	8	4	29
International	15	-	-	15
Total	**40**	**8**	**4**	**44**

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With effect from October 1, 2017, it-novum GmbH acquired the assets and liabilities of an operating business as part of a business combination in order to strengthen the activities as an ALFRESCO partner.

With effect from December 31, 2017, an additional 25% 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 fully consolidated in order to strengthen our flexible film activities.

With effect of November 30, 2017, 100% of the shares in Gt Oberflächen GmbH, Heinsdorfergrund were acquired. In addition to this, with effect from December 14, 2017, 100% of the shares in Metallveredlung Döbeln GmbH and Oberflächentechnik Döbeln GmbH, both headquartered in Döbeln, were acquired respectively. The companies were acquired in order to establish a new surface treatment segment.

Due to the periods elapsed between the time of acquisition and the balance sheet date, all purchase price allocations made with respect to the assets and liabilities presented in the tables below are provisional. The carrying amounts calculated after the purchase price allocation always correspond to the fair value.

Surface Holding GmbH was established with effect from August 7, 2017. It holds the shares in the companies of the newly established **surface technologies** segment.

On the basis of the ALFRESCO enterprise content management system, the operating business acquired by it-novum includes cross-industry solutions in archiving, collaboration, incoming post and accounting management as well as enterprise search. Under an asset deal, staff and intangible assets such as core customers and software technology were taken over.

The acquired assets and liabilities at the time of acquisition on October 1, 2017 are as follows:

in € thousands	Carrying amount before purchase price allocation	Adjustment due to purchase price allocation	Carrying amount after purchase price allocation
Non-current assets	**4**	**1,326**	**1,330**
thereof			
– Intangible assets	-	1,326	1,326
– Property, plant and equipment	4	-	4
Current assets	**-**	**-**	**-**
Assets	**4**	**1,326**	**1,330**
Long-term liabilities	**-**	**-**	**-**
thereof			
– Deferred taxes	-	-	-
Current liabilities	**-**	**69**	**69**
thereof			
– Other provisions	-	69	69
Liabilities	**-**	**69**	**69**
Net assets	**4**	**1,257**	**1,261**

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Goodwill amounted to €1,976 thousand from the provisional purchase price allocation of the assets and liabilities and could be amortized against tax over a period of 15 years. Goodwill represents non-separable values such as staff know-how and positive earnings expectations for the future as well as synergies from development, sales and marketing.

Aside from the purchase price of €2,110 thousand, two earn-out clauses were agreed which, with the most likely value of €1,130 thousand, were recognized as liabilities and added to cost of acquisition accordingly. The earn-out agreements refer to the staff taken over and the existing customer agreements (earn-out I) continuing until a specified time after the completion date and on specific revenue targets being reached in the 2018 financial year (earn-out II). The ranges are between €0 thousand and €700 thousand (earn-out I) and €0 thousand and €600 thousand (earn-out II).

The companies Gt Oberflächen GmbH, Oberflächentechnik Döbeln GmbH and Metallveredlung Döbeln GmbH are specialists in surface coating and finishing, whose coated parts fulfil high requirements for corrosion protection and protection coating but also for decorative purposes.

The acquired assets and liabilities of Gt Oberflächen GmbH at the time of acquisition on November 30, 2017 are as follows:

	in € thousands	Carrying amount before purchase price allocation	Adjustment due to purchase price allocation	Carrying amount after purchase price allocation
	Non-current assets	**6,050**	**12,710**	**18,760**
	thereof			
	– Intangible assets	7	5,600	5,607
	– Property, plant and equipment	6,043	7,110	13,153
	Current assets	**3,739**	**-**	**3,739**
	thereof			
	– Inventories	309	-	309
	– Trade receivables	1,728	-	1,728
	– Other receivables and assets	329	-	329
	– Cash and cash equivalents	1,373	-	1,373
	Assets	**9,789**	**12,710**	**22,499**
	Long-term liabilities	**2,681**	**3,702**	**6,383**
	thereof			
	– Non-current financial liabilities	2,661		2,661
	– Deferred taxes	20	3,702	3,722
	Current liabilities	**2,151**	**-**	**2,151**
	thereof			
	– Other provisions	565	-	565
	– Current financial liabilities	-	-	-
	– Actual income taxes	41	-	41
	– Trade payables	1,220	-	1,220
	– Other liabilities	325	-	325
	Liabilities	**4,832**	**3,702**	**8,534**
18	**Net assets**	**4,957**	**9,008**	**13,965**

Goodwill amounted to €4,135 thousand from the provisional purchase price allocation and would be non-deductible for tax purposes. This was allocated to the **surface technologies** segment. Goodwill represents non-separable values such as staff know-how and positive earnings expectations for the future as well as synergies from development, production, sales and marketing.

The fair value of the transferred consideration is €18,100 thousand. It consists of a cash component of €12,600 thousand and KAP Beteiligungs-AG shares with an acquisition value of €5,500 thousand. The number of the 161,843 shares was calculated using the simple average of the published daily closing prices on the five business days preceding the completion date. The gross amount of receivables taken over is €1,748 thousand.

The company achieved revenue in the 2017 financial year of €13,236 thousand and a net profit for the year of €328 thousand. In the 2017 financial year the company contributed €802 thousand to revenue and €-617 thousand to the operating result within the Group.

The acquired assets and liabilities of Oberflächentechnik Döbeln GmbH at the time of acquisition on December 14, 2017 are as follows:

in € thousands	Carrying amount before purchase price allocation	Adjustment due to purchase price allocation	Carrying amount after purchase price allocation
Non-current assets	**1,983**	**3,446**	**5,429**
thereof			
– Intangible assets	1	1,300	1,301
– Property, plant and equipment	1,768	2,146	3,914
– Deferred tax assets	214	-	214
Current assets	**2,992**	**-**	**2,992**
thereof			
– Inventories	62	-	62
– Trade receivables	548	-	548
– Other receivables and assets	121	-	121
– Cash and cash equivalents	2,261	-	2,261
Assets	**4,975**	**3,446**	**8,421**
Long-term liabilities	**-**	**1,004**	**1,004**
thereof			
– Deferred taxes	-	1,004	1,004
Current liabilities	**890**	**-**	**890**
thereof			
– Other provisions	54	-	54
– Current financial liabilities	416	-	416
– Actual income taxes	15	-	15
– Trade payables	291	-	291
– Other liabilities	114	-	114
Liabilities	**890**	**1,004**	**1,894**
Net assets	**4,085**	**2,442**	**6,527**

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Goodwill amounted to €1,123 thousand from the provisional purchase price allocation and would be non-deductible for tax purposes. This was allocated to the **surface technologies** segment. Goodwill represents non-separable values such as staff know-how and positive earnings expectations for the future as well as synergies from development, production, sales and marketing.

The fair value of the transferred consideration is €7,650 thousand. It consists of a cash component of €2,900 thousand and KAP Beteiligungs-AG shares with an acquisition value of €4,750 thousand. The number of the 140,535 shares was calculated using the simple average of the published daily closing prices on the five working days preceding the completion date. The gross amount of receivables taken over is €548 thousand.

The company achieved revenue in the 2017 financial year of €6,495 thousand and a net profit for the year of €708 thousand. In the 2017 financial year the company contributed €182 thousand to revenue and €-29 thousand to the operating result within the Group.

The acquired assets and liabilities of Metallveredlung Döbeln GmbH at the time of acquisition on December 14, 2017 are as follows:

in € thousands	Carrying amount before purchase price allocation	Adjustment due to purchase price allocation	Carrying amount after purchase price allocation
Non-current assets	**4,078**	**2,351**	**6,429**
thereof			
– Intangible assets	-	800	800
– Property, plant and equipment	3,567	1,551	5,118
– Deferred tax assets	511	-	511
Current assets	**1,689**	**-**	**1,689**
thereof			
– Inventories	74	-	74
– Trade receivables	746	-	746
– Other receivables and assets	80	-	80
– Cash and cash equivalents	789	-	789
Assets	**5,767**	**2,351**	**8,118**
Long-term liabilities	**745**	**685**	**1,430**
thereof			
– Non-current financial liabilities	745	-	745
– Other non-current liabilities	-	-	-
- Deferred tax liabilities	-	685	685
Current liabilities	**2,364**	**-**	**2,364**
thereof			
– Other provisions	38	-	38
– Current financial liabilities	1,947	-	1,947
– Actual income taxes	-	-	-
– Trade payables	174	-	174
– Other liabilities	205	-	205
Liabilities	**3,109**	**685**	**3,794**
20 **Net assets**	**2,658**	**1,666**	**4,324**

Goodwill amounted to €158 thousand from the provisional purchase price allocation and would be non-deductible for tax purposes. This was allocated to the **surface technologies** segment. Goodwill represents non-separable values such as staff know-how and positive earnings expectations for the future as well as synergies from development, production, sales and marketing.

The fair value of the transferred consideration is €4,482 thousand. It consists of a cash component of €2,232 thousand and KAP Beteiligungs-AG shares with an acquisition value of €2,250 thousand. The number of the 66,537 shares was calculated using the simple average of the published daily closing prices on the five business days preceding the completion date. The gross amount of receivables taken over is €749 thousand.

The company achieved revenue in the 2017 financial year of €6,281 thousand and a net profit for the year of €325 thousand. In the 2017 financial year the company contributed €155 thousand to revenue and €-29 thousand to the operating result within the Group.

NOW Contec GmbH & Co. KG and Convert GmbH & Co. KG are packers specializing in the winding, cutting, printing, taping and packing of permeable roof lining membranes and agricultural fleeces.

The acquired assets and liabilities of NOW Contec GmbH & Co. KG and Convert GmbH & Co. KG at the time of acquisition on December 31, 2017 are as follows:

in € thousands	Carrying amount before purchase price allocation	Adjustment due to purchase price allocation	Carrying amount after purchase price allocation
Non-current assets	**2,216**	**-**	**5,128**
thereof			
– Intangible assets	5	-	5
– Property, plant and equipment	2,211	2,912	5,123
Current assets	**2,635**		**2,635**
thereof			
– Inventories	325	-	325
– Trade receivables	801	-	801
– Other receivables and assets	25	-	25
– Cash and cash equivalents	1,483	-	1,483
Assets	**4,851**	**2,912**	**7,763**
Long-term liabilities	**150**	**-**	**925**
thereof			
– Non-current financial liabilities	150	-	150
– Deferred taxes	0	775	775
Current liabilities	**4,073**	**-**	**4,073**
thereof			
– Other provisions	71	-	71
– Current financial liabilities	3,131	-	3,131
– Trade payables	133	-	133
– Other liabilities	738	-	738
Liabilities	**4,223**	**775**	**4,998**
21 **Net assets**	**628**	**2,137**	**2,765**

Goodwill amounted to €5,339 thousand from the provisional purchase price allocation using the full goodwill method and would be non-deductible for tax purposes. This was allocated to the **engineered products** segment. Goodwill represents non-separable values such as staff know-how and positive earnings expectations for the future as well as synergies from development, production, sales and marketing.

The fair value of the transferred consideration is €2,026 thousand. The gross amount of receivables taken over is €801 thousand. The fair value of the equity share of 26% already held before the increase to 51% is €2,107 thousand. The revaluation of this equity share resulted in income of €97 thousand. The value of the non-controlling interests at the time of acquisition is €3,971 thousand.

The companies achieved revenue in the period from January 1 to December 31, 2017 of €6,500 thousand and a profit for the year of €1,105 thousand.

The disposals concern the mergers of Bebusch GmbH to Gear Motion GmbH and of OLBO Industrietextilien GmbH to MEHLER ENGINEERED PRODUCTS GMBH together with the liquidation of STÖHR & Co. AG i.L. as well as the sale of Kirson Industrial Reinforcements GmbH.

The deconsolidation result of subsidiaries is reported in the result from the disposal of fixed assets and liabilities. 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. The effects resulting from changes in the consolidated group 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
22	GM Tec Industries Holding GmbH	Pretzfeld

The other companies, which also made use of § 264 para. (3) HGB as well as § 264b HGB, are indicated in the list of subsidiaries and associated companies pursuant to Section 313 para. 2 of the German Commercial Code (HGB), which is shown on Page 150.

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. 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.

Any debit difference remaining after the purchase price allocation is accounted for as goodwill is reviewed regularly for impairment, after allocation to a cash-generating unit.

Goodwill offset against reserves before January 1, 2004 is still offset against 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, differences in liabilities from the capital consolidation reported under German commercial law are included in the reserves.

Shares in the capital and annual result of fully consolidated subsidiaries not attributable to the parent company are recognized as non-controlling 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 · FOREIGN 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 of which KAP Beteiligungs-AG owns less than 100%, the translation differences resulting from the currency translation, insofar as they are attributable to non-controlling interests, are reported separately under non-controlling 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	
	2017	2016 €1 =	**12/31/ 2017**	12/31/2016 €1 =
Belarus Ruble	2.1865	2.1879	2.3726	2.0686
Chinese Renminbi	7.6282	7.3471	7.8327	7.3252
Indian Rupee	73.5546	74.3748	76.5603	71.6388
Canadian Dollar	1.4651	1.4662	1.5024	1.4223
Swedish Krona	9.6360	9.4682	9.8300	9.5670
South African Rand	15.0588	16.2679	14.7499	14.4687
Czech Koruna	26.3171	27.0321	25.5850	27.0200
Turkish Lira	4.1225	3.3446	4.5343	3.7269
Hungarian Forint	309.1521	311.3493	309.9600	309.7500
U.S. Dollar	1.1304	1.1070	1.1988	1.0560

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5 · ACCOUNTING POLICIES

The financial statements of the companies included in the consolidated financial statements have been prepared in accordance with uniform accounting and valuation principles that correspond to those of the previous year.

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 eight 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 was 5.6% (previous year: 4.9%) for **engineered products**, 5.6% (previous year: 5.7%) for **automotive components** and 5.6% for **surface technologies**. 30% was used as the standard tax rate. This resulted in a pre-tax interest rate of 7.5% (previous year: 6.6%) for **engineered products,** 7.5% (previous year: 7.6%) for **automotive components** and 7.5% for **surface technologies** with a growth rate of 0% (previous year: 0%). The increase in the cost of capital before taxes by 1.0% to 6.6% does not result in any unscheduled goodwill amortization.

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 position 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 carry forwards.

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 financial 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.

Income tax assets and liabilities

Income tax liabilities 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 income tax assets.

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 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 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.

Share-based remuneration

The share option program that KAP Beteiligungs-AG introduced in the 2017 financial year is a virtual share option program with cash settlement. Under it, a provision proportionate to the level of the fair value of the payment obligation was set aside on the respective reference date, with any changes in the fair value recognized through profit and loss.

The fair value of the virtual share options is determined using the Black-Scholes-Merton model, where the following parameters are used in the calculation:

	in %	12/31/2017
	Risk-free interest rate	-0.41%
25	Expected volatility	32.9%

The expected volatility was derived using the historical volatility of KAP Beteiligungs-AG's share price.

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 2017 financial year

Standard/Interpretation		Mandatory from[1]	Adopted by the EU Commission[2]	Foreseeable effects
Amendments to IAS 7	Amendments to IAS 7 Statement of cash flows; improvement of information about the change in debt of a business	01/01/2017	Yes	Changes in the presentation of the liabilities and financial assets
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	01/01/2017	Yes	No significant effects

[1] For financial years starting at this or a later point.
The date indicated by the EU is referred to as the date of adoption.
[2] Until December 31, 2017.

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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 the EU Commission[2]	Foreseeable effects
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)	01/01/2018	Yes	No effects
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	See note below
IFRS 15	Revenue from contracts with customers	01/01/2018	Yes	See note below
Amendments to IFRS 15	Revenue from contracts with customers; clarifications to identify the obligation to pay compensation from a contract; clarification to assess whether a company is the principal or an agent of a business transaction; clarification of the assessment whether revenue from a license granted must be recognized for a certain date or time period.	01/01/2018	Yes	Measures to reduce the complexity and cost of adopting the new standard
IFRS 16	Leases	01/01/2019	Yes	See note below

[1] For financial years starting at this or a later point.
The date indicated by the EU is referred to as the date of adoption.
[2] Until December 31, 2018.

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IFRS 9 will be applied for the first time effective January 1, 2018. We do not expect the new provisions on the classification and measurement of financial assets and liabilities to have any significant effects.

The KAP Group will apply the simplified approach of IFRS 9 with respect to the impairment of trade receivables, according to which a provision for credit losses amounting to the expected loss must be recorded for all instruments for their entire remaining life, regardless of their credit quality.

In terms of impairment, no significant effects on the consolidated financial statements are expected.

IFRS 15 will be applied for the first time effective January 1, 2018. Its application is not expected to result in any significant changeover effects, because the previous approach is largely in accordance with the new provisions. However, it will result in more extensive disclosures.

IFRS 16 will be applied for the first time effective January 1, 2019. The impact of the standard is being investigated in a cross-group implementation project and cannot be reliably estimated at this stage. At this stage of the analysis we expect to see an increase in the balance sheet total and additional disclosures.

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
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	None
Amendments to IFRS 9 and IAS 28	Amendments to IFRS 9 Financial instruments and IAS 28 Investments in joint ventures and associates; financial assets with a negative prepayment penalty may under certain conditions be recognized at amortized cost or directly in equity at fair value in other comprehensive income instead of at fair value through profit and loss.	None
IFRS 17	Insurance business	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
IFRIC 23	Uncertainty regarding treatment for income tax purposes	None
	Improvements to the IFRS 2014-2016 (Annual improvements)[1]	None
	Improvements to the IFRS 2015-2017 (Annual improvements)[2]	None

[1] Amendments to IFRS 1, IFRS 12 and IAS 28.
[2] Amendments to IFRS 3, IFRS 11, IAS 12, IAS 23

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Notes to the Consolidated Financial Statements

Consolidated Statement of Financial Position

Fixed assets

The list of shareholdings is shown on pages 149 to 150 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 110 to 113.

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 brands, technologies and customer relationships resulting from the purchase price allocations.

Of the goodwill reported as at December 31, 2017 totaling €12,870 thousand, €7,454 thousand (previous year: €144 thousand) is accounted for by the **engineered products** segment and €5,416 thousand (previous year: €0 thousand) by the **surface technologies** segment.

The preliminary purchase price allocations resulted in the identification and valuation of €8,700 thousand in customer relationships that are always based on signed contracts. Where no binding agreements could be agreed with regular customers, the revenues of the past three financial years with these customers were used as a measurement basis. The amortization period is between three and eight years.

8 · PROPERTY, PLANT AND EQUIPMENT

Due to the long-term under-utilization of the production facilities in India, unscheduled depreciation of €5,200 thousand was set aside on the net disposal value and is recorded under depreciation and amortization. The impairment is based on the estimate of an independent expert.

In the previous year the technical equipment and machinery included assets from finance leases amounting to €836 thousand. The main lease agreement had a term of 65 months. The non-cancelable minimum term was 36 months. The asset was taken over when the lease ended. Technical assets were pledged as collateral for bank loans in the amount of €1,142 thousand (previous year: €0 thousand).

Future minimum lease payments are as follows:

in € thousands	12/31/2017	12/31/2016
Future minimum lease payments		
Due within one year	-	552
Due between one and five years	-	-
Due after more than five years	-	-
Total	**-**	**552**
Interest portion included		
Due within one year	-	-7
Due between one and five years	-	-
Due after more than five years	-	-
Total	**-**	**-7**
Present value of future minimum lease payments		
Due within one year	-	545
Due between one and five years	-	-
Due after more than five years	-	-
29 **Total**	**-**	**545**

In the 2017 financial year, government grants in an amount of €3,975 thousand (previous year: €287 thousand) were recognized.

9 · INVESTMENT PROPERTY

The disclosure relates to the commercial premises and buildings of MEHLER Aktiengesellschaft in Fulda, Flieden, the residential buildings of 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:

	2017			2016		
	Commercial properties		Residential property	Commercial properties		Residential properties
Evaluation parameters	Range			Range		
Market rent (€ per sq m/year)	27.17	31.88	12.09	26.81	29.57	12.59
Property interest rate (%)	6.70	8.00	7.00	6.70	8.00	7.00
Remaining useful life (years)	7.00	18.00	2.00	7.00	19.00	2.00
Multiplier	5.02	10.28	1.81	5.02	10.57	1.81

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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:

	2017		2016	
	Range		Range	
	6.50%	8.50%	6.50%	8.50%
30 Earning capacity value (in € thousands)	17,629	16,453	16,661	15,187

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 amounts to €-26 thousand (previous year: €-65 thousand), as the carrying amount had already been fully written off.

The summarized financial information is as follows:

in € thousands	12/31/2017	12/31/2016
Income statement disclosures		
Revenue	645	554
Period result	-78	-196
Balance sheet disclosures		
Assets	1,929	1,958
31 Liabilities	2,020	2,005

The company employed three employees on average during the 2017 financial year (previous year: three).

In the previous 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. The proportionate annual result amounts to €514 thousand (previous year: €0 thousand). With effect from 12/31/2017 the shareholding in the respective company was increased to 51%. The companies are fully consolidated as of this date.

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, 2017

Acquisition/production costs

in € thousands	01/01/2017	Currency adjustment	Adjustment IAS 29 hyperinflation	Change consolidated group	Additions	Transfers	Disposals	Reclassification[1]	12/31/2017
Intangible assets									
Software and licenses	10,357	-10	-	-394	605[1]	47	-37	-	10,568
Development costs	221	-6	-	-	-	-	-	-	215
Brand and brand name	116	-3	-	-	-	-	-	-	113
Technology	29	-1	-	-	-	-	-	-	28
Customer relationships	378	-10	-	7,700	1,000[2]	-	-	-	9,068
Goodwill	4,823	-177	-	10,754	1,976[2]	-	-	-	17,376
Advance payments made on intangible assets	20	0	-	-	11	-	-	-	30
	15,944	**-207**	**-**	**18,061**	**3,592**	**47**	**-37**	**-**	**37,400**
Property, plant and equipment									
Land and buildings	112,374	-435	-	3,207	1,476	3,699	-202	-	120,119
Technical equipment and machinery	253,503	-4,496	-	23,311	6,506	8,605	-2,887	-	284,542
Other plant, operating and office equipment	45,999	-57	-	1,897	3,256[3]	115	-1,641	-	49,570
Advance payments and assets under construction	10,053	-244	-	344	9,668	-11,705	-7	-	8,109
	421,928	**-5,232**	**-**	**28,760**	**20,907**	**714**	**-4,737**	**-**	**462,340**
Investment property	**19,940**	**-**	**-**	**-**	**45**	**-761**	**-**	**-**	**19,224**
Financial assets accounted for using the equity method	**2,010**	**-**	**-**	**-**	**-**	**-**	**-2,010**	**-**	**0**
Other financial assets									
Shares in affiliated companies	72	-	-	-	28	-	-	-	99
Investments in companies accounted for at cost	735	-	-	-	-	-	-535	-	200
Loans to affiliated companies	-	-	-	-	-	-	-	-	-
Loans to companies with a participating interest	1,402	-	-	-	-	-	-	-	1,402
Other loans	-	-	-	-	-	-	-	-	-
Investment securities	-	-	-	-	-	-	-	-	-
	2,209	**-**	**-**	**-**	**28**	**-**	**-535**	**-**	**1,701**
	462,032	**-5,439**	**-**	**46,820**	**24,571**	**0**	**-7,319**	**-**	**520,666**

[1] Of this figure, €326 thousand is accounted for by the acquisition of an operating business in the context of a business combination.
[2] Relates to the acquisition of an operating business in the context of a business combination.
[3] Of this figure, €4 thousand is accounted for by the acquisition of an operating business as part of a business combination.

Accumulated depreciation										Carrying amounts	
01/01/2017	Currency adjustment	Adjustment IAS 29 hyperinflation	Change consolidated group	Additions	Write-ups	Transfers	Disposals	Reclassification[1]	12/31/2017	12/31/2017	01/01/2017
9,111	6	-	-385	525	-	-	-37	-	9,220	1,348	1,245
207	-6	-	-	14	-	-	-	-	215	-	14
47	-2	-	-	23	-	-	-	-	68	45	70
12	0	-	-	6	-	-	-	-	17	11	17
151	-6	-	-	213	-	-	-	-	359	8,710	227
4,676	-170	-	-	-	-	-	-	-	4,506	12,870	146
-	-	-	-	-	-	-	-	-	-	30	20
14,204	**-178**	**-**	**-385**	**781**	**-**	**-**	**-37**	**-**	**14,385**	**23,015**	**1,741**
59,185	-102	-	-532	2,971	-	163	-164	-	61,521	58,598	53,189
191,632	-3,198	-	6,941	18,418	-	-	-2,692	-	211,101	73,441	61,871
34,256	-33	-	621	3,473	-	4	-1,392	-	36,929	12,641	11,743
-	-	-	-	-	-	-	-	-	-	8,109	10,053
285,073	**-3,333**	**-**	**7,030**	**24,862**	**-**	**168**	**-4,248**	**-**	**309,551**	**152,789**	**136,856**
14,200	**-**	**-**	**-**	**312**	**-**	**-168**	**-**	**-**	**14,343**	**4,881**	**5,741**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0**	**2,010**
72	-	-	-	-	-	-	-	-	72	28	-
685	-	-	-	-	-	-	-535	-	150	50	50
-	-	-	-	-	-	-	-	-	-	-	-
220	-	-	-	-	-	-	-	-	220	1,182	1,182
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
976	**-**	**-**	**-**	**-**	**-**	**-**	**-535**	**-**	**442**	**1,260**	**1,232**
314,452	**-3,511**	**-**	**6,645**	**25,955**	**-**	**0**	**-4,820**	**-**	**338,721**	**181,945**	**147,580**

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

Development of Group Fixed Assets

From January 1 to December 31, 2016

Acquisition/production costs

in € thousands	01/01/2016	Currency adjustment	Adjust-ment IAS 29 hyperin-flation	Change consolidat-ed group	Additions	Transfers	Disposals	Re-classifi-cation[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 plant, operating 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 property	**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 hyperinflation	Change consolidated group	Additions	Write-ups	Transfers	Disposals	Reclassification[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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12 · DEFERRED TAX ASSETS

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

	12/31/2017		12/31/2016	
in € thousands	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	10	2,279	0	69
Property, plant and equipment	2,264	4,774	2,835	1,247
Investment property	265	-	255	-
Financial assets	-	-	-	-
Inventories	405	797	578	894
Receivables and other assets	863	598	519	215
Pension provisions	2,587	-	3,210	-
Other provisions	626	81	674	197
Liabilities	156	258	323	67
Other	0	180	1	110
Gross value deferred taxes on temporary valuation differences	**7,175**	**8,967**	**8,395**	**2,800**
Valuation allowances on temporary valuation differences	-213	-	-547	-
Tax loss carryforwards	7,580	-	7,672	-
Valuation allowances tax loss carryforwards	-6,080	-	-6,710	-
Offsetting	-2,364	-2,364	-2,067	-2,067
34	**6,097**	**6,603**	**6,743**	**733**

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	12/31/2017	12/31/2016
Can be carried forward up to 5 years	14,654	12,567
Can be carried forward up to 10 years	4,455	5,189
Can be carried forward more than 10 years	224	1,713
Can be carried forward indefinitely	6,351	3,909
35	**25,684**	**23,378**

The balance of €1,764 thousand (previous year: €34 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 €6,107 thousand (previous year: €2,444 thousand).

Deferred taxes in the amount of €2,344 thousand (previous year: €1,148 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 2017 financial year or in the previous year.

13 · INVENTORIES

in € thousands	12/31/2017	12/31/2016
Raw materials and supplies	**27,430**	**26,160**
Valuation adjustment	-1,141	-1,423
Carrying amount	26,289	24,737
Unfinished products, unfinished services	**19,914**	**20,817**
Valuation adjustment	-311	-931
Carrying amount	19,603	19,887
Finished goods	**24,706**	**25,147**
Valuation adjustment	-1,416	-1,785
Carrying amount	23,291	23,362
Merchandises	**5,174**	**4,488**
Valuation adjustment	-1,133	-825
Carrying amount	4,041	3,663
Advance payments made on inventories	**817**	**832**
36	**74,041**	**72,481**

Of the total amount, inventories were recognized with a carrying amount of €9,099 thousand (previous year: €12,421 thousand) at net realizable value. The impairments recognized in the 2017 financial year at net realizable value amounted to €1,647 thousand (previous year: €2,861 thousand).

14 · TRADE RECEIVABLES

in € thousands	12/31/2017	12/31/2016
Trade receivables from		
– Third parties	63,939	56,668
– Affiliated companies	361	-
– Participating interests	-	-
37	**64,300**	**56,668**

Receivables against third parties resulted in valuation adjustments of €2,222 thousand (previous year: €2,811 thousand).

All trade receivables are due within one year.

The valuation allowances on trade receivables have developed as follows:

in € thousands	2017	2016
Balance of valuation allowances as at January 1	**2,811**	**3,776**
Allocations	417	353
Consumption/currency differences	-688	-1,129
Reversals	-310	-189
Derecognition/change in the consolidated group	-9	-
Balance of valuation allowances as at December 31	**2,221**	**2,811**

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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 to 6 months	6 to 9 months	More than 9 months	Total
As at 12/31/2017	**10,577**	**487**	**230**	**335**	**11,629**
Balance 12/31/2016	10,655	595	52	83	11,385

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

15 · INCOME TAX ASSETS

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	12/31/2017	12/31/2016
Financial receivables from		
– Third parties	0	437
– Affiliated companies	0	0
– Participating interests	63	72
Other assets	10,231	5,637
	10,294	**6,147**

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All other receivables and assets are due within one year.

Receivables against third parties resulted in valuation adjustments of €153 thousand (previous year: €5,843 thousand), against associated companies of €18 thousand (previous year: €19 thousand) and against investment companies of €0 thousand (previous year: €577 thousand).

17 · SECURITIES

The disclosure for the previous financial year related 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 of €150 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 · LONG-TERM ASSETS HELD FOR SALE

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

The disclosure for the previous financial year concerned the amount of €100 thousand for the property in Kalefeld as well as for the property in Klettgau with a carrying amount of €929 thousand.

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 which carry the same rights, and specifically the same voting rights. Each share carries one vote at the Annual General Meeting. There are no different categories of shares.

Authorized capital

The Annual General Meeting on July 7, 2017 further authorized the Management Board with the approval of the Supervisory Board to increase the share capital once or several times until 2022 to a limit of €3,444,711.92 by issuing up to 1,324,889 new bearer shares with a prorated share of €2.60 each in the share capital for cash and/or contributions in kind (authorized capital 2017). Even by way of indirect subscription under § 186 (5) sentence 1 AktG, shareholders must normally be given a shareholders' subscription right. However, the Management Board is authorized to exclude the shareholders' subscription right with the approval of the Supervisory Board.

In the past 2017 financial year, the Management Board and Supervisory Board resolved on the issue of new shares as a capital increase in kind of a total of 6.09% of the share capital (403,400 shares).

In detail, the issue of the new shares up to 5.57% was exclusively for the purpose of acquiring companies, parts of companies or participations in Metallveredlung Döbeln GmbH, Oberflächentechnik Döbeln GmbH and Gt Oberflächen GmbH (368,945 shares) and 0.22% to finance the associated acquisition costs; finally, 0.30% of the shares were issued to the Management Board (20,000 shares). The increases were entered in the company's commercial register with legal effect in the financial year 2018.

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.

Furthermore, 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 are reported in 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.

Non-controlling interests

The non-controlling 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 · SHARE-BASED REMUERATION

KAP Beteiligungs-AG has been operating a virtual share option program with cash settlement in favor of a Management Board member since 2017.

At the beginning of the term of office on August 1, 2017, the Management Board member was granted a one-off amount of 100,000 virtual stock options with a four-year vesting period. Under the program, the beneficiary will receive a claim to a cash payment from the company when the option is exercised. The exercise date is July 31, 2021. The claim to a cash payment corresponds to the difference between the average market value of the past 20 trading days before the option is exercised and the underlying value of €30. Depending on the level, the claim is limited to €40 per option, adjusted for dividends paid out in the meantime and any dilution effects from capital increases.

As capital increases took place between August 1, 2017 and the accounting date, the number of virtual stock options increased to 105,871 units. On the accounting date December 31, 2017 the residual term of the options stood at 43 months until the exercise date. The liability amounts to €99 thousand (previous year: €0 thousand).

22 · PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The balance sheet disclosure is made up as follows:

in € thousands	12/31/2017	12/31/2016	12/31/2015	12/31/2014	12/31/2013
Pension obligations	18,199	20,667	19,332	20,218	18,450
Similar obligations	281	292	205	252	191
	18,480	**20,958**	**19,537**	**20,470**	**18,641**

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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 the pension obligations

in € thousands	2017	2016	2015	2014	2013
Present value of the unfunded obligations	19,943	22,375	21,004	21,843	20,126
Fair value of the plan assets	-1,744	-1,708	-1,672	-1,626	-1,676
Pension obligation as at December 31	**18,199**	**20,667**	**19,332**	**20,218**	**18,450**

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Development of pension provisions

in € thousands	2017	2016	2015	2014	2013
Balance January 1	**20,667**	**19,332**	**20,218**	**18,450**	**18,461**
Pensions paid	-1,078	-1,036	-1,064	-1,056	-1,085
Allocation	-951	2,467	178	3,441	1,077
Addition	745	-	-	-	-
Disposal	-634	-96	-	-617	-
Reversal	-550	-	-	-	-3
As of December 31	**18,199**	**20,667**	**19,332**	**20,218**	**18,450**
– thereof pension provisions	19,943	22,375	21,004	21,843	20,126
– thereof assets	-1,744	-1,708	-1,672	-1,626	-1,676

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In addition, pension obligations of €1,017 thousand (previous year: €1,115 thousand) are due within a year. €17,182 thousand (previous year: €19,149 thousand) will be due in more than one year but within five years' time. €705 thousand (previous year: €403 thousand) will be due in more than five years.

Pension expenses

in € thousands	2017	2016	2015	2014	2013
Current service cost	23	43	48	83	87
Interest expense	251	374	394	562	626
Deferred compensation	-	-	-	-	-
Past service cost	-	-	-	12	0
Components recognized through profit and loss	**274**	**417**	**442**	**656**	**714**
Allocation of actuarial gains (-)/losses (+) recognized directly in equity					
– from changes in financial assumptions	-1,596	2,102	-	2,727	597
– from changes in demographic assumptions	-	-	-	-	-
– from adjustments based on experience	-151	-26	-230	237	-78
Actuarial gains (-)/losses (+) from plan assets	-31	-20	-34	-8	-6
Impact of asset limitation	4	-7	1	-172	-152
Components recognized directly in equity	**-1,775**	**2,050**	**-263**	**2,784**	**360**
	-1,501	**2,467**	**178**	**3,441**	**1,074**
– of which allocation	-951	2,467	178	3,441	1,077
– of which reversal	-550	-	-	-	-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 reserves and service cost under personnel expenses.

The actual income from plan assets in the reporting year amounted to €52 thousand (previous year: €53 thousand).

Significant calculation basis and assumptions for valuation:

in %	12/31/2017	12/31/2016	12/31/2015	12/31/2014	12/31/2013
Actuarial interest rate	1.85	1.25	2.00	2.00	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	1.75	2.00

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	2017		2016	
in € thousands	Increase of 0.5% points	Decrease of 0.5% points	Increase of 0.5% points	Decrease of 0.5% points
Present value of the obligation	17,937	20,365	20,935	23,989
Interest expense	425	277	356	176
Service cost	18	22	21	26

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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 %	12/31/2017	12/31/2016	12/31/2015	12/31/2014	12/31/2013
Actuarial interest rate	8.76	8.76	7.37	7.37	7.37
Increase in healthcare costs	7.56	7.56	6.18	6.18	6.18

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23 · FINANCIAL LIABILITIES

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

in € thousands	12/31/2017	Of which remaining term > 1 year	12/31/2016	Of which remaining term > 1 year
Banks	78,447	44,998	85,976	25,750
Finance lease	0	-	545	-
Affiliated companies	17	-	17	-
Investment companies	3	-	11	-
Third parties	4,204	735	1,368	1,220
	82,672	**45,733**	**87,918**	**26,970**

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The effective interest rates of the liabilities to banks range between 1.25% and 11.25% (previous year: 1.37% and 13.6%).

Of the liabilities to banks, €6,033 thousand (previous year: €0 thousand) are secured by mortgages.

The financing by some banks is linked to an equity ratio of 30%. The ratio of net financial debt and EBITDA may not exceed 3.0.

24 · 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.

25 · OTHER PROVISIONS

in € thousands	01/01/2017	Currency difference	Allocation	Disposal	Utilization	Addition	Reversal	12/31/2017
Personnel	7,518	-61	258	-1,524	-5,756	11,438	-330	11,543
Complaints and guarantees	14,761	-15	57	-341	-693	3,148	-1,849	15,068
Restructuring measures	81	-	-	-	-13	1,528	-	1,596
Impending losses from pending transactions	1,816	-	-	-	-149	149	-303	1,513
Other accruals and provisions	828	3	222	-9	-209	619	-25	1,430
	25,004	**-72**	**538**	**-1,874**	**-6,820**	**16,883**	**-2,508**	**31,150**

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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.

The provision for restructuring measures was set aside on the basis of the resolution to close the Haslach site of the automotive components segment. Implementation is expected to be completed in the 2018 financial year. The provision for severance payments amounting to €4,071 thousand is reported under personnel.

A large number of risks and obligations from the operating business are shown under other provisions. Other provisions of €6,570 thousand (previous year: €7,554 thousand) have a remaining term of more than one year. The interest expense amounts to €13 thousand (previous year: €24 thousand).

26 · TRADE PAYABLES

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

27 · ACTUAL INCOME TAX

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

28 · OTHER LIABILITIES

in € thousands	12/31/2017	12/31/2016
Advance payments received on orders	1,003	1,267
Other liabilities	24,157	6,842
	25,159	**8,109**

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Other liabilities have a residual term of up to one year. The disclosure includes liabilities for social security of €603 thousand (previous year: €658 thousand).

Other liabilities of €13,178 thousand relate to capital increases registered but not yet recorded in the Commercial Register. This item also includes the purchase price for a further 25% of the shares in NOW Contec GmbH & Co. KG and Convert GmbH & Co. KG plus their general partner GmbHs.

Consolidated Statement of Income

29 · REVENUE

The breakdown of revenue by product group and geographical area is shown in the segment reporting on pages 140 to 143.

30 · OTHER OPERATING INCOME

in € thousands	2017	2016
Disposal of fixed assets	2,439	1,482
Foreign currency gains	1,054	855
Reversal of provisions	1,011	1,549
Reversal of valuation allowances on receivables	310	189
Rental income from investment property	3,992	4,400
Other income	4,322	3,475
	13,128	**11,951**

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Other income mainly consists of rental income of €621 thousand (previous year: €747 thousand), income from refund of expenses of €203 thousand (previous year: €134 thousand) and insurance compensation of €531 thousand (previous year: €215 thousand), income relating to other periods in the amount of €256 thousand (previous year: €771 thousand) and income from distributions of €514 thousand.

31 · COST OF MATERIALS

in € thousands	2017	2016
Raw materials and supplies	203,367	187,283
Purchased services	36,058	31,127
50	**239,425**	**218,410**

32 · PERSONNEL EXPENSES

in € thousands	2017	2016
Wages and salaries	81,980	74,946
Social security contributions and expenses for pension schemes	15,724	15,179
51	**97,704**	**90,125**

Social security contributions and expenses for pension schemes include expenses for statutory pension insurance in the amount of €4,389 thousand (previous year: €4,384 thousand) and defined contribution plans totaling €612 thousand (previous year: €609 thousand).

On average, the Group employed:

	2017	2016
Wage earners	1,859	1,656
Salaried employees	789	870
	2,648	**2,526**
Apprentices	76	90
52	**2,724**	**2,616**

33 · DEPRECIATION

in € thousands	2017	2016
Intangible assets	781	627
Property, plant and equipment	24,862	20,048
Investment property	312	546
53	**25,955**	**21,220**

Depreciation and amortization includes unscheduled depreciation amounting to €5,225 thousand (previous year: €722 thousand). Of this amount, the assets held for sale accounted for €418 thousand in the previous year.

34 · OTHER OPERATING EXPENSES

in € thousands	2017	2016
Maintenance	12,687	12,205
Outgoing freight	7,488	7,263
Additions to valuation allowances on trade receivables	417	353
Commissions	1,374	1,376
Insurances	1,385	1,289
Bad debt losses	35	9
Legal and consulting fees	7,813	4,329
Packaging material	3,686	3,164
Rent and leasing	1,214	1,214
Foreign currency transaction losses	1,658	1,176
Additions to provisions	92	102
Disposal of fixed assets	162	262
Other taxes	1,135	1,033
Investment property expenses	923	879
Complaints and guarantees	2,296	1,877
Other expenses	14,163	13,128
54	**56,528**	**49,659**

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

35 · RESULT FROM THE DISPOSAL OF FIXED ASSETS AND LIABILITIES

in € thousands	2017	2016
55	**23,047**	-

The amount relates to €20,906 thousand from the income resulting from the sale of shares in Kirson Industrial Reinforcements GmbH as well as €2,141 thousand from STÖHR & Co. AG i.L.

36 · NET INTEREST INCOME

in € thousands	2017	2016
Interest income		
Third parties	125	114
Investments	75	73
Other	8	165
Interest expense		
Third parties	-3,731	-4,497
Investments	-	0
Compounding of interest on pension obligations	-251	-374
Finance lease	-7	-48
Other	-70	-150
56	**-3,851**	**-4,717**

37 · OTHER FINANCIAL INCOME

in € thousands	2017	2016
57	**8,168**	**7,248**

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, income from the disposal of securities was €10,934 thousand (previous year: €6,796 thousand). For this purpose, €10,748 thousand (previous year: €3,580 thousand) from the reserve for financial assets available for sale was reclassified in the consolidated income statement. In addition, exchange rate losses from financing activities of €2,637 thousand (previous year: €346 thousand) are included.

In the previous year, dividend income of €1,319 thousand, gains from hedging transactions of €1,657 thousand and depreciation on securities amounting to €2,208 thousand were included in the result.

38 · INCOME TAXES

in € thousands	2017	2016
Actual income taxes	-2,442	-5,864
Deferred taxes - Temporary valuation differences	-749	-704
Deferred taxes - Tax loss carryforwards	230	-1,614
58	**-2,962**	**-8,182**

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. These are 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	2017	2016
Consolidated annual result before income taxes	33,937	20,934
KAP Group income tax rate	30%	30%
Expected income taxes	**-10,181**	**-6,280**
Variances due to different tax rates	-520	655
Tax reductions (+)/-increases (-) due to tax free income/ non-deductible expenses	7,766	-2,848
Tax on previous years	-11	46
Changes in valuation allowances on deferred tax assets	909	1,597
Other effects	-924	-1,352
Income tax according to the income statement	**-2,962**	**-8,182**
Effective tax rate	**9%**	**39%**

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Deferred taxes in the amount of €-532 thousand (previous year: €615 thousand) were, due to the actuarial profits and losses being recognized directly in equity, also recognized directly in equity under other comprehensive income.

39 · RESULT OF DISCONTINUED OPERATIONS

The result of discontinued operations concerns the reduction in liability obligations. We agreed with the purchaser 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.

40 · PROFIT SHARE OF NON-CONTROLLING 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.

41 · 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.

	2017	2016
Consolidated annual result of KAP Beteiligungs-AG shareholders (in € thousands)	31,021	12,080
Weighted average number of shares (in 1,000)	6,624	6,624
Earnings per share (in €)	**4.68**	**1.82**
– 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

42 · EXPENSES FOR RESEARCH AND DEVELOPMENT

Expenses for research and development in the reporting year amounted to €438 thousand (previous year: €567 thousand).

43 · 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	2017	2016
Sureties	**-**	**172**
– of which affiliated companies	-	-
Guarantees	**148**	**416**
– of which affiliated companies	-	-
Security	**-**	**-**
– of which affiliated companies	-	-
Total	**148**	**588**
– of which affiliated companies	-	-

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44 · OTHER FINANCIAL OBLIGATIONS

in € thousands	2017	2016
Intangible assets	**-**	**-**
– of which affiliated companies	-	-
Property, plant and equipment	**6,951**	**3,550**
– of which affiliated companies	-	-
Investment property	**36**	**50**
– of which affiliated companies	-	-
Obligations from non-cancelable rental and lease agreements	**3,386**	**1,765**
– of which affiliated companies	-	-
Total	**10,373**	**5,365**
62 – of which affiliated companies	-	-

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

in € thousands	12/31/2017	12/31/2016
Future minimum lease payments		
Due within one year	1,529	841
Due between one and five years	1,454	904
Due after more than five years	403	20
Total	**3,386**	**1,765**
63 – of which affiliated companies	-	-

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.

45 · FINANCIAL INSTRUMENTS

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

Balance sheet items	Valuation category	Carrying amount	Amortized cost	Fair value recognized directly in equity
in € thousands		12/31/2017		
ASSETS				
Loans to companies with a participating interest	Loans and receivables	1,182	1,182	-
Trade receivables	Loans and receivables	64,300	64,300	-
Other receivables and assets	Loans and receivables	10,294	10,294	-
Securities	Available for sale	-	-	-
Cash and cash equivalents	Loans and receivables	10,079	-	-
LIABILITIES				
Other non-current liabilities	Financial liabilities	0	-	-
Financial liabilities	Financial liabilities	82,672	82,672	-
Trade payables	Financial liabilities	27,850	27,850	-
Other liabilities	Financial liabilities	23,708	23,708	-

The carrying amounts are reasonable approximations of the fair values.

Fair value measured through profit and loss	Fair value	Carrying amount	Amortized cost	Fair value recognized directly in equity	Fair value measured through profit and loss	Fair value
	12/31/2017	12/31/2016				12/31/2016
-	1,182	1,182	1,182	-	-	1,182
-	64,300	56,668	56,668	-	-	56,668
-	10,294	6,147	6,147	-	-	6,147
-	-	18,624	-	18,624	-	18,624
-	10,079	4,138	-	-	-	4,138
-	0	607	607	-	-	607
-	82,672	87,918	87,918	-	-	87,918
-	27,850	21,937	21,937	-	-	21,937
-	23,708	6,373	6,373	-	-	6,373

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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	2017	2016
Financial assets available for sale		
Gains/losses recognized in equity (-)	-	-6,877
Income from dividends	-	1,319
Income from the sale of securities	10,934	6,796
Losses recognized in the income statement (-)	-1	-2,208
Loans and receivables		
Interest income	200	187
Impairments (-)/reversals	-158	-130
Financial liabilities		
Interest expenses	3,738	4,545
Exchange rate gains and losses (-) from financing activities	-2,637	-346

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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 Beteiligungs-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 12/31/2017	Due within one year	Due between one and five years	Due after more than five years	Total
Other non-current liabilities	0	-	-	0
Banks	33,449	34,998	10,000	78,447
Finance lease	0	-	-	0
Affiliated companies	17	-	-	17
Investment companies	3	-	-	3
Third parties	3,469	735	-	4,204
Goods and services	27,850	-	-	27,850
Other liabilities	23,708	-	-	23,708
66	**88,498**	**35,733**	**10,000**	**134,231**

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
Goods and services	21,937	-	-	21,937
Other liabilities	8,109	-	-	8,109
67	**90,994**	**17,227**	**10,350**	**118,571**

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 Beteiligungs-AG. In addition, there are occasionally risks associated with the financing activities of the foreign companies with KAP Beteiligungs-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, 2017:

	U.S. Dollar		British Pound		Russian Ruble	
in thousands	USD	EUR	GBP	EUR	RUB	EUR
ASSETS						
Trade receivables	2,782	2,350	365	409	-	-
Financial receivables	-	-	-	-	-	-
Cash and cash equivalents	821	685	64	72	7,325	106
Total	**3,603**	**3,035**	**429**	**481**	**7,325**	**106**
LIABILITIES						
Financial liabilities	-	-	-	-	-	-
Trade payables	1,617	1,348	-	-	-	-
Other liabilities	4	3	-	-	-	-
Total	**1,621**	**1,351**	**-**	**-**	**-**	**-**
Revenue	**10,618**	**9,431**	**2,490**	**2,845**	**21,062**	**318**

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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**	**-**	**-**
Revenue	**10,862**	**9,791**	**2,537**	**2,995**	**7,202**	**98**

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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 2017 financial year, more than 10% of revenue was attributable to two (previous year: two) 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.

Funding in Germany derives principally through a syndicated loan agreement which has a term of 5 years. The interest rate depends on the Euribor, the net debt-equity ratio and how much of the credit line has been used and the nature of its usage. Variable-interest working capital lines are in place at various foreign locations. The table below shows the amount by which interest expense would increase in the event of an interest rates rise:

	2017	
in € thousands	Increase of 0.5% points	Increase of 1.0% points
Interest expense	321	641

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46 · DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

In the context of hedging relationships, foreign exchange contracts are used to a small extent to hedge an already recorded underlying transaction (fair value hedge) or planned transactions (cash flow hedge).

47 · EVENTS AFTER THE BALANCE SHEET DATE

The capital increases amounting to a total of €13,694 thousand agreed in the 2017 financial year had all been recorded in the Commercial Register by March 29, 2018.

48 · CONSOLIDATED STATEMENT OF CASH FLOWS

The statement of cash flows shows cash flows from operating 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 €76 thousand (previous year: €4 thousand) as a result of exchange rate changes. Cash flow from operating activities includes:

in € thousands	2017	2016
Interest		
Interest paid (-)	-3,162	-4,672
Interest received	178	351
	-2,984	**-4,321**
Income taxes		
Paid income tax (-)	-4,615	-7,936
Refunded income tax	749	1,978
	-3,865	**-5,958**
Dividends received	**-**	**1,319**

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The change in liabilities from financing activities is as follows:

in € thousands	01/01/2017	Net changes in cash	Changes in currency rates	Changes in consolidated group	Changes in valuation	12/31/2017
Banks	85,977	-11,774	-745	4,989	-	78,447
Finance lease	545	-545	-	-	-	-
Affiliated companies	17	-	0	-	-	17
Investment companies	11	-8	-	-	-	3
Third parties	1,368	63	-	2,773	-	4,204
	87,918	**-12,264**	**-745**	**7,762**	**-**	**82,672**

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Due to the sale of Kirson Industrial Reinforcements GmbH cash and cash equivalents were disposed by €1,705 thousand. The proceeds from the sale of Kirson Industrial Reinforcements GmbH amounted to €24,063 thousand.

The following assets and liabilities were disposed of:

in € thousands	2017
Non-current assets	5,562
Current assets	6,961
	12,523
Long-term liabilities	1,735
Current liabilities	3,396
	5,131

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The acquisition of shares in Gt Oberflächen GmbH, Oberflächentechnik Döbeln GmbH and Metallveredlung Döbeln GmbH led to a cash outflow of €17,732 thousand. Cash and cash equivalents of €4,423 thousand were acquired.

The following assets and liabilities were acquired:

in € thousands	2017
Non-current assets (including goodwill)	29,893
Current assets	9,145
	39,038
Long-term liabilities	8,817
Current liabilities	5,405
	14,222

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The acquisition of a further 25% of the shares in NOW Contec GmbH & Co. KG as well as Convert GmbH & Co. KG plus their general partner GmbHs did not lead to a cash outflow, as the purchase price will only be paid in 2018. Cash and cash equivalents of €1,483 thousand were received by us.

The assets and liabilities acquired in relation to 100% of the shares were as follows:

in € thousands	2017
Non-current assets (including goodwill)	10,467
Current assets	2,635
	13,102
Long-term liabilities	925
Current liabilities	4,073
	4,998

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The acquisition of the operating business by it-novum led to a cash outflow of €2,110 thousand.

The following assets and liabilities were acquired:

in € thousands	2017
Non-current assets (including goodwill)	3,306
Current assets	-
	3,306
Long-term liabilities	69
Current liabilities	-
	69

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49 · 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;**
- **surface technologies;**
- **all other segments.**

Engineered products, automotive components and **surface technologies** 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.

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

In order to place greater emphasis on the operative character of the segments, alongside KAP Beteiligungs-AG, the holding companies KAP Textile Holdings SA Limited, MEHLER Aktiengesellschaft, KAP Beteiligungs Inc., GM Tec Industries Holding GmbH, Surface Holding GmbH und STÖHR & Co. AG i.L., Schäfflerbachstraße Grundbesitz GmbH, Mehler Grundstücksverwaltungs GmbH and GbR MEHLER AG/DAUN & Cie. AG are allocated to the all other segments segment.

The reconciliations concerning the segment values of assets, liabilities and income with the corresponding consolidated values are shown on page 140 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 **all other segments** segment in the 2016 financial year.

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 €42,540 thousand (previous year €42,207 thousand).

In the **automotive components** segment, three customers achieved sales of €49,308 thousand (previous year €46,858 thousand), €3,348 thousand (previous year €14,914 thousand), and €8,711 thousand (previous year €11,342 thousand).

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

Segment assets include intangible assets, property, plant 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 €5,200 thousand (previous year: €281 thousand).

The **automotive components** segment includes unscheduled depreciation of €25 thousand (previous year: €23 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, 2017

	engineered products		automotive components		surface technologies	
in € thousands	2017	2016	2017	2016	2017	2016
Revenue with third parties	285,612	282,003	121,931	104,876	1,141	-
Revenue with other segments	398	299	-	-	-1	-
Revenue	**286,010**	**282,302**	**121,931**	**104,876**	**1,140**	**-**
Segment result[1,2]	9,249	16,538	1,768	2,589	-675	-
Interest income	585	1,130	45	178	0	-
Interest expenses	4,561	4,914	1,830	1,865	28	-
Income taxes	-413	1,880	286	356	-167	-
Segment assets	195,331	185,155	77,145	78,333	42,401	-
Segment liabilities	32,449	29,548	17,217	11,366	2,802	-
Investments[3]	17,332	13,761	6,358	10,933	172	-
Scheduled depreciation and amortization	11,859	12,225	7,373	7,005	269	-
Segment cash flow[4]	23,154	31,410	14,036	8,970	-431	-
Employees as at 12/31	1,503	1,580	1,018	985	302	-

Due to the representation 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 of €5,200 (previous year: €281 thousand), €25 thousand (previous year €23),and €0 thousand (previous year: €418 thousand).
[3] Concerns intangible assets and property, plant and equipment.
[4] Not including interest and income taxes.

all other segments		Consolidations		Group	
2017	2016	2017	2016	2017	2016
12	-	-1,174	-1,097	407,522	385,782
-	-	-397	-299	-	-
12	**-**	**-1,571**	**-1,396**	**407,522**	**385,782**
-7,667	-4,013	2,005	2,872	4,680	17,987
4,695	5,405	-5,125	-6,525	200	187
2,487	4,267	-5,117	-6,526	3,790	4,521
1,695	5,946	1,560	-	2,962	8,182
20,506	16,026	-928	-965	334,455	278,549
32,613	16,092	-922	-1,349	84,160	55,657
626	414	10	0	24,498	25,109
917	723	312	546	20,730	20,500
-5,929	-4,118	3,056	3,147	32,926	39,408
34	32	-	-	2,857	2,597

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Segment reporting by geographical area

From January 1 to December 31, 2017

	Sales with third parties[1]		Segment assets[2]		Investments[3]	
in € thousands	2017	2016	2017	2016	2017	2016
Germany	184,904	176,255	227,252	168,176	24,976	17,848
Rest of Europe	140,811	135,561	77,999	73,952	6,456	7,610
North/South America	46,941	40,832	17,930	16,454	1,741	1,099
Asia	31,951	30,785	25,333	33,828	975	2,259
Other countries	2,915	2,349	300	141	-	-
Consolidations	0	-	-14,359	-14,002	-4,234	-3,708
KAP Group	**407,522**	**385,782**	**334,455**	**278,549**	**29,914**	**25,109**

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

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[1] Segment revenue 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	2017	2016
Segment assets	**334,455**	**278,549**
Investment property	4,881	5,741
Financial assets accounted for using the equity method	-	2,010
Other financial assets	1,260	1,232
Deferred taxes	7,657	6,743
Actual income tax	2,329	1,625
Financial receivables	64	509
Securities	-	18,624
KAP Group assets	**350,645**	**315,034**
Segment liabilities	**84,160**	**55,657**
Provisions for pensions and similar obligations	18,480	20,958
Non-current financial liabilities	45,733	26,970
Deferred tax liabilities	6,603	733
Current financial liabilities	36,939	60,948
Actual income tax	1,984	2,475
KAP Group liabilities	**193,898**	**167,741**
Segment result	**4,680**	**17,987**
Result from the disposal of fixed assets and liabilities	23,047	-
Net interest income	-3,851	-4,717
Other financial income	8,168	7,248
Income taxes	-1,402	-8,182
Result of discontinued operations	1,282	416
KAP Group consolidated annual result	**32,535**	**12,751**

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50 · RELATED PARTY TRANSACTIONS

Companies which directly or indirectly have control over, or are controlled by KAP Beteiligungs-AG are regarded as related, unless these companies are included in the consolidated financial statements of KAP Beteiligungs-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 149 to 150.

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 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 overshoot 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. William 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 overshoot 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. 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 overshoot 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. 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.

Project Diamant Bidco AG is to be included in the consolidated financial statements of CSP Diamant Luxco 1 Sàrl, which is entered in the Commercial Register of Luxemburg under no. B 210.172. This represents at the same time the smallest and the largest group of companies. The consolidated financial statements will be published under CSP Diamant Luxco 1 Sárl, Luxemburg.

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	2017	2016
PARENT COMPANY		
Goods and services rendered to the parent company		
Other income	303	-
Receivables from the parent company		
Goods and services	361	-
AFFILIATED COMPANIES		
Liabilities to affiliated companies		
Financial liabilities	17	17
ASSOCIATED COMPANIES		
Goods and services rendered to associated companies		
Sales transactions	-	13
Interest income from loans granted	75	73
Other income	0	-
Goods and services received from associated companies		
Sourced raw materials, contract production	1,376	357
Other expenses	2	2
Interest expenses from loans received	-	0
Receivables from associated companies		
Loans	1,182	1,182
Financial receivables	63	72
Liabilities to associated companies		
Financial liabilities	3	11
Goods and services	-	42
OTHER RELATED COMPANIES		
Goods and services rendered to other related companies		
Sales transactions	-	66
Other income	-	172
Goods and services received from other related companies		
Interest expenses from loans received	-	0
Other expenses	-	56
Liabilities against other related companies		
Financial liabilities	-	4

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51 · MANAGEMENT BOARD AND SUPERVISORY BOARD

Appointed members of the Management Board in the reporting period:

Guido Decker, Chairman
(from August 1, 2017)
Dipl.-Kaufmann, Fulda, Germany

No other mandates

Dr. Stefan Geyler, Speaker
(until April 24, 2017)
Dipl.-Physiker, Bonn, Germany

No other mandates

André Wehrhahn
(until December 12, 2017)
Dipl.-Betriebswirt (FH), MBA, Fulda, Germany

No other mandates

Fried Möller, Deputy Member
(from April 24 to August 1, 2017)
Dipl.-Kaufmann, Stadtallendorf, Germany

Other mandates:
Mehler AG, Fulda, Germany[1]
KAP Textile Holdings SA Ltd., Pearl, South Africa[2]

The remuneration of the Management Board in the financial year amounted to €1,534 thousand (previous year: €809 thousand). The pension provisions include pension obligations for members of the Management Board of €1,324 thousand (previous year: €1,469 thousand). A virtual share option program with cash settlement exists for a Management Board member.

Appointed Supervisory Board members in the reporting period:

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

Other mandates:
Mehler AG, Fulda, Germany[1]
Klenk Holz AG, Oberrot, Germany[1]

Fried Möller, Deputy Member
(from April 24, 2017 and from December 7, 2017)
Dipl.-Kaufmann, Stadtallendorf, Germany

Other mandates:
Mehler AG, Fulda, Germany[1]
KAP Textile Holdings SA Ltd., Pearl, South Africa[2]

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

Other mandates:
Klenk Holz AG, Oberrot, Germany[1]

Florian Möller
(from July 7 to October 30, 2017)
Attorney, Stadtallendorf, Germany

No other mandates

Pavlin Kumchev
(from July 7, 2017)
Associate Director of The Carlyle Group, London, United Kingdom

Other mandates:
Bis Industries Holdings Ltd, Australia[2]

Uwe Stahmer
(from May 8, 2017)
Businessman, Bad Zwischenahn, Germany

No other mandates

Roy Bachmann
(from July 7, 2017)
Consultant, London, United Kingdom

No other mandates

[1] Member of domestic supervisory boards required by law.

[2] Member of comparable domestic and foreign control committees.

The remuneration of the Supervisory Board in the financial year amounted to €26 thousand (previous year: €18 thousand).

As a member of the Supervisory Board, Roy Bachmann, works for RB Capital Ltd, Guernsey. RB Capital Ltd, Guernsey invoiced a total of €552 thousand for brokerage and consulting services in the financial year 2017, of which €516 thousand was paid in shares.

52 · LIST OF SHAREHOLDINGS

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	51.00[3]
Convert Vliesveredelung GmbH & Co. KG	Waldfischbach-Burgalben	51.00[3]
ELBTAL OF AMERICA, INC.	Charlotte/USA	100.00
Elbtal Verwaltungs GmbH	Coswig	100.00[3]
Elbtal Plastics GmbH & Co. KG	Coswig	100.00[1.3]
GbR MEHLER AG/DAUN & Cie. AG AG	Stadtallendorf	94.00
it-novum GmbH	Fulda	100.00[1]
KAP Beteiligungs 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	51.00[3]
NOW Contec GmbH & Co. KG	Waldfischbach-Burgalben	51.00[3]
OLBO & MEHLER Tex GmbH & Co. KG	Fulda	100.00[1.3]
OLBO & MEHLER TEX PORTUGAL LDA.	Famalicao/Portugal	100.00
Olbo & Mehler Tex North America, Inc.	Charlotte/USA	100.00
OLBO & MEHLER Verwaltungs-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 Surface Holding GmbH	Fulda	100.00
Gt Oberflächen GmbH	Heinsdorfergrund	100.00
Metallveredlung Döbeln GmbH	Döbeln	100.00
Oberflächentechnik Döbeln GmbH	Döbeln	100.00

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Companies included in the consolidated financial statements	Location:	Share in capital in %
KAP Textile Holdings SA Limited	South Africa	100.00
UKW Properties (Pty.) Ltd.	South Africa	100.00
Schäfflerbachstraße Grundbesitz GmbH	Fulda	93.62
GM Tec Industries Holding GmbH	Pretzfeld	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[1.3]
Gear Motion Grundstücksverwaltungs GmbH	Ehingen	100.00[3]
Geiger Fertigungstechnologie GmbH	Pretzfeld	94.00[1]
Minavto OOO	Logoisk/Belarus	99.99
Präzisionsteile Dresden GmbH & Co. KG	Dresden	100.00[1.3]
Präzisionsteile Dresden Verwaltungsgesellschaft mbH	Dresden	100.00[3]

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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.
[3] General partner:
Convert Vliesveredelung GmbH is the general partner of Convert Vliesveredelung GmbH & Co. KG
Elbtal Verwaltungs GmbH is the general partner of Elbtal GmbH & Co. KG
NOW Contec GmbH is the general partner of NOW Contec GmbH & Co. KG
OLBO & MEHLER Verwaltungs-GmbH is the general partner of OLBO & MEHLER TEX GmbH & Co. KG
Gear Motion Grundstücksverwaltungs GmbH is the general partner of Gear Motion Grundstücksverpachtungs GmbH & Co. KG
Präzisionsteile Dreden Verwaltungsgesellschaft mbH is the general partner of Präzisionsteile Dresden GmbH & Co. KG

Companies not included in the consolidated financial statements	Location:	Share in capital in %
through Mehler Aktiengesellschaft	Fulda	100.00
Kammgarnbüro GmbH	Frankfurt	32.81
Platin 1535. GmbH	Frankfurt	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

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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.

53 · DECLARATION ON CORPORATE GOVERNANCE

The company has issued the declaration on corporate governance and published it on its website at kap.de/company/corporate-governance/compliance-statement. This declaration includes the Declaration of Conformity with the German Corporate Governance Code pursuant to § 161 AktG.

54 · GROUP AUDITOR'S FEES

Group auditor's fees calculated for the full year:

in € thousands	2017	2016
Audit of financial statements	76	69
Other consulting services	47	-
	123	**69**

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55 · 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 €41,943,430.46.

In addition, the Annual General Meeting on July 20, 2018 is expected to propose the distribution of a dividend from the balance sheet profit of €13,248,892.00 (previous year: €13,248,892.00) and the remaining balance sheet profit of €28,694,538.46 to be carried forward to the new account. This equates to a dividend of €2.00 (previous year: €2.00) per share.

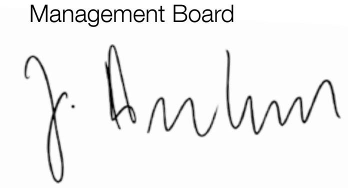
On the basis of the resolution of the Annual General Meeting, €13,248,892.00 (previous year: €6,624,446.00) was distributed as a dividend in the 2017 financial year. This equates to a dividend of €2.00 (previous year: €1.00) per share.

56 · DECLARATION BY THE MANAGEMENT BOARD

The consolidated financial statements and the group management report for the 2017 financial year of KAP Beteiligungs-AG were approved for publication by the Executive Board on April 30, 2018.

Fulda, April 30, 2018

KAP Beteiligungs-AG
Management Board



Guido Decker
Chairman of the Management Board

Independent Auditor's Report

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

AUDITOR'S OPINION

We have audited the consolidated financial statements of KAP Beteiligungs-AG, Fulda consisting of the Consolidated Statement of Financial Position as at December 31, 2017, the group income statement, the group statement of comprehensive income, the group statement of changes in equity and the group cash flow statement for the financial year from January 1 to December 31, 2017 together with the Notes to the Consolidated Financial Statements including a summary of significant accounting policies. Furthermore, we have audited the Group management report of KAP Beteiligungs-AG for the financial year from January 1, 2017 to December 31, 2017. In accordance with German statutory provisions, we have not audited the content of the components of the Group management report listed under “Other Information”.

In our opinion, based on the findings of our audit,

- the enclosed consolidated financial statements comply in all material respects with the IFRS as adopted by the EU and the additional requirements of German law in accordance with § 315e para. 1 HGB, and present a true and fair view of the Group's financial position and financial performance as at December 31, 2017 and its financial performance for the financial year from January 1, 2017 to December 31, 2017, and

- the attached Group management report on the whole provides an accurate view of the Group's position. In all material respects this Group management report is in accordance with the consolidated financial statements, corresponds to German statutory provisions and accurately presents the opportunities and risks for future development. Our audit opinion on the Group management report does not extend to the content of the elements of the Group management report mentioned under “Other information”.

In accordance with § 322 para. 3 sentence 1 HGB, we state that our audit has not given rise to any objections to the correctness of the consolidated financial statements and the Group management report.

BASIS FOR THE AUDITOR'S OPINION

We conducted our audit of the consolidated financial statements and the Group management report in accordance with § 317 HGB and the EU Audit Regulation (no. 537/2014; hereinafter “EU AR”), taking into account the German Generally Accepted Standards on Auditing as promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). Our responsibilities pursuant to these provisions and principles are described in more detail in the section titled “Responsibility of the Group auditor for the audit of the consolidated financial statements and Group management report". We are independent of the Group companies in accordance with European law and German commercial law and professional regulations and have fulfilled our other German professional duties in accordance with these requirements.

In addition, we declare in accordance with Article 10(2)f EU AR that we have not provided any of the prohibited non-audit services referred to in Article 5(1) EU AR.

We believe that the audit evidence we have obtained is sufficient and suitable to serve as the basis for our audit opinion on the consolidated financial statements and Group management report.

AUDIT MATTERS OF PARTICULAR IMPORTANCE IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Audit matters of particular importance are matters which, in our due discretion, were the most important in our audit of the consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters have been considered in connection with our audit of the consolidated financial statements as a whole and in forming our opinion thereon; we do not express a separate opinion on these matters.

We identified the following matters as audit matters of particular importance:

- business combinations
- the presentation of restructuring measures on the balance sheet
- the impairment of non-current assets

BUSINESS COMBINATIONS

The case

In the 2017 financial year the KAP Group realized the following business combinations:

- By a sale and purchase agreement dated September 7, 2017, the ECM business unit of Westernacher Solutions AG was acquired by it- novum GmbH, a subsidiary of KAP Beteiligungs-AG, as part of an asset deal.
- With effect from November 30, 2017, 100% of the shares in GT Oberflächen GmbH were acquired.
- With effect from December 14, 2017, 100% of the shares in Metallveredlung Döbeln GmbH and Oberflächentechnik Döbeln GmbH were acquired respectively.
- With effect from December 31, 2017, the Group increased its share in companies NOW Contec GmbH, Convert Vliesveredelung GmbH, NOW Contec GmbH & Co. KG and Convert Vlies-veredelung GmbH & Co. KG (NOW/Convert Group) by a further 25% to 51% via its subsidiary MEHLER AG.

A provisional purchase price allocation took place at the acquisition dates. Taking into account the net assets of the acquired companies totaling €28.8 million, goodwill calculated using the full goodwill method worked out to €12.7 million.

Full identification of the assets and liabilities to be recognized as part of the purchase price allocation is subject to great complexity, and the fair value measurement of the acquired assets and liabilities is discretionary. In light of this, the measurement as part of the first-time consolidation of the companies acquired in the 2017 financial year was a particularly important matter in the context of our audit.

Information on the accounting of business combinations is included under section "2. Consolidated group" and section "48. Consolidated Statement of Cash Flows" in the Notes to the Consolidated Financial Statements.

Auditor's reaction and findings

As part of our audit of the presentation of the first-time consolidation on the balance sheet we used the activities of the auditor of the sub-sector with respect to the companies of the NOW/Convert Group and the assets taken over from the ECM business unit. We pointed the particular matter out to the auditor of the sub-sector in the group audit instructions and discussed the audit reaction of the auditor of the sub-sector with them. Furthermore, we discussed and evaluated the results of the assessment made by the auditor of the sub-sector. In addition, we scrutinized the main assumptions made in connection with the measurement of the net worth of the NOW/Convert Group with the support of our measurement specialists, including the parameters used, and verified the arithmetical correctness of the valuation models.

With respect to the first-time consolidation of Gt Oberflächen GmbH, Metallveredlung Döbeln GmbH and Oberflächentechnik Döbeln GmbH we reviewed the contractual basis of the acquisition and compared the acquisition price against the corresponding documents. We also checked whether the company acquisitions were presented accurately and fully in the consolidated financial statements. We verified the calculation of fair values of the assets and liabilities identified in the context of the purchase price allocation and subjected it to a plausibility check. We consulted our valuation specialists to verify the appropriateness of the measurement methods and the assumptions underlying the valuation and to subject the discount rates to a plausibility check. Finally, we verified the completeness of the information to be provided in accordance with IFRS 3.

Overall, we were able to satisfy ourselves that the assumptions made by the legal representatives and the valuation parameters used are comprehensible and that the company acquisitions were appropriately depicted.

THE PRESENTATION OF RESTRUCTURING MEASURES ON THE BALANCE SHEET

The case

The consolidated financial statements of KAP Beteiligungs-AG report a provision for restructuring measures totaling €5.6 million as at December 31, 2017. These measures are connected with the closure of the Haslach site of Gear Motion GmbH. On December 7, 2017, a reconciliation of interests and a social plan were agreed. In connection with the closure, provisions were made for further expected costs. They relate, in particular, to costs in connection with the property's expected vacancy as well as clearance and renovation costs.

Due to the restructuring provision, the estimates underlying the setting aside of provisions and the potential impact of any changes to the assumptions underlying the calculations, we considered the restructuring provision to be a matter of particular importance in our audit.

The information on the restructuring measures is included in section 25. other provisions in the Notes to the Consolidated Financial Statements.

Auditor’s reaction and findings

We assessed the legal and contractual basis for the setting aside of the restructuring provision and examined whether a provision can be recognized for the costs pursuant to IAS 37. We convinced ourselves that the valuation is appropriate; in particular, we verified the calculations concerning the reconciliation of interests and the social plan to check whether they are arithmetically correct and correspond to the agreements reached. In this connection, we compared the personnel data in the calculations against the key data of a specific selection of employees.

All told, we have convinced ourselves that the calculations and assumptions made are clearly understandable.

IMPAIRMENT OF NON-CURRENT ASSETS

The case

Subsidiary MEP in India, which operates a plant for technical textiles in Bangalore in India, has been generating losses as a result of persistent under-utilization. The subsidiary has material assets in the form of land and buildings as well as machinery. Because of the economic situation there are signs of possible impairment; consequently, an impairment test was carried out with the involvement of an expert and a write-down requirement of €5.2 million identified. Due to the considerable discretionary scope in connection with the measurement of assets at their recoverable amount and the non-recurring character of the matter, we attach particular importance to it and considered the measurement of non-current assets as a matter of particular importance in the audit.

Information on the impairment of non-current assets can be found in section 8. Property, plant and equipment in the Notes to the Consolidated Financial Statements.

Auditor’s reaction and findings

As part of our assessment we evaluated the activities of the auditor of the sub-sector and sent the auditor of the sub-sector group audit instructions in which we also stated the risk we have identified in connection with the impairment test of the assets in India. We discussed the audit reaction of the auditor of the sub-sector with them and assessed whether it is appropriate and sufficient. Furthermore, we discussed and evaluated material assumptions made by the management team and assessments made by the auditor of the sub-sector together with the latter.

In summary, we have convinced ourselves that the approach used by the management team to determine the estimates of the Indian subsidiary’s non-current assets is appropriate.

OTHER INFORMATION

The legal representatives are responsible for the other information. Other information includes:

- the separately published non-financial declaration, to which reference is made in the section “Non-financial group statement 2017” in the management report,

- the separately published declaration on corporate governance, to which reference is made in the section “Declaration on Corporate Governance and the Corporate Governance Report” in the management report,

- the other sections of the annual report, with the exception of the audited consolidated financial statements and the Group management report and our audit certificate.

Our audit opinion on the consolidated financial statements and the Group management report does not extent to other information; accordingly, we issue no audit opinion or any other kind of audit conclusion on this.

In connection with our audit of the consolidated financial statements it is our responsibility to read the other information and to evaluate whether the other information

- contains material inaccuracies with respect to the consolidated financial statements, the Group management report or the knowledge we have gained in the course of the audit, or

- appears to contain any other material inaccuracies.

If we, on the basis of the work we have carried out, conclude that this other information has been materially misrepresented, it is our duty to report this fact. We have nothing to report in this connection.

RESPONSIBILITY OF THE LEGAL REPRESENTATIVES AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The legal representatives are responsible for preparing consolidated financial statements that comply in all material respects with the IFRS as adopted by the EU and with the additional requirements of German law in accordance with § 315e para. 1 HGB and for ensuring that the consolidated financial statements present a true and fair view of the assets, financial and earnings position of the Group. In addition, the legal representatives are responsible for the internal controls they have determined as being necessary to enable the preparation of consolidated financial statements that are free from material misrepresentations, whether intentional or not.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group’s ability to continue as a going concern. They are also responsible for disclosing, where relevant, matters relating to the continuation of the company’s activities. In addition, they are responsible for preparing the accounts on the basis of the going concern accounting principle, unless there are actual or legal circumstances to the contrary.

The legal representatives are, moreover, responsible for the preparation of the Group management report, which as a whole provides an accurate view of the Group’s position and is in accordance with the consolidated financial statements in all material respects, complies with German statutory provisions and suitably presents the opportunities and risks of future development. The legal representatives are also responsible for the arrangements and measures (systems) they have deemed necessary to allow the preparation of a Group management report that complies with the applicable German statutory provisions and to provide sufficient suitable proof to back up the statements made in the Group management report.

The Supervisory Board is responsible for monitoring the Group's accounting process with respect to the preparation of the consolidated financial statements and the Group management report.

RESPONSIBILITY OF THE AUDITOR FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

Our objective is to establish with reasonable certainty whether the consolidated financial statements as a whole are free from material misrepresentations, whether intended or not, and whether the Group management report as a whole provides an accurate view of the Group's position and is in all material respects in accordance with the consolidated financial statements and the findings of our audit, complies with German law and accurately depicts the risks of future development, and to issue an audit certificate that includes our audit opinion on the consolidated financial statements and the Group management report.

Reasonable certainty means a high degree of certainty but does not provide a guarantee that an audit carried out in accordance with § 317 HGB and the EU AR while taking into account the German Generally Accepted Standards on Auditing as promulgated by the Institut der Wirtschaftsprüfer (IDW - Institute of Public Auditors in Germany) will always uncover material misrepresentations. Misrepresentations may result from infringements or inaccuracies and are considered material if it could reasonably be expected that they will influence the economic decisions of addressees made individually or collectively on the basis of these consolidated financial statements and the Group management report.

During the audit we exercise due discretion and maintain a critical attitude. In addition,

- we identify and assess the risks of material misrepresentations, whether intentional or not, in the consolidated financial statements and the Group management report, plan and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to support our audit opinion. The risk that material misrepresentations are not detected is higher in the case of violations than in the case of inaccuracies, since violations may involve fraudulent interaction, forgery, intentional incompleteness, misleading representations or the repeal of internal controls.

- we gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the relevant preparations and measures for the audit of the Group management report to plan the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- we assess the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates and related disclosures made by the legal representatives.

- we draw conclusions about the appropriateness of the going concern principle applied by the legal representatives and, on the basis of the audit evidence obtained, about whether there is a material uncertainty in connection with events or circumstances that could raise significant doubts about the company's ability to continue as a going concern. If we come to the conclusion that there is material uncertainty, we are obliged to draw attention to the relevant information in the consolidated financial statements and the Group management report in our audit opinion or, if this information is inappropriate, to modify our audit opinion. We draw our conclusions based on evidence obtained by the date of our audit certificate. However, future events or circumstances may prevent the Group from continuing as a going concern.

- we express an opinion on the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements comply in all material respects with the IFRS as adopted by the EU and with the additional requirements of German law in accordance with § 315e para. 1 HGB and present a true and fair view of the assets, financial and earnings position of the Group.

- we obtain sufficient suitable audit evidence for the accounting information of the companies or business activities within the Group to enable us to express an opinion on the consolidated financial statements and the Group management report. We are responsible for the audit instructions as well as the monitoring and execution of the audit of the consolidated financial statements. We are solely responsible for our audit opinions.

- we assess whether the Group management report is in accordance with the consolidated financial statements and complies with the law and look at the picture it conveys of the Group's position.

- we perform audit procedures on the forward-looking statements presented by the legal representatives in the Group management report. On the basis of sufficient suitable audit evidence, we retrace in particular the significant assumptions underlying the forward-looking statements made by the legal representatives and assess whether appropriate forward-looking statements have been derived from these assumptions. We do not express an independent opinion on these forward-looking statements or on the underlying assumptions. There is a significant unavoidable risk that future events could differ materially from the forward-looking statements.

We discuss with those responsible for monitoring, inter alia, the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system that are identified in the course of our audit.

We make a statement to the supervisors that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be expected to affect our independence and the safeguards in this regard.

From the matters discussed with those responsible for supervision, we determine those matters which were most significant in the audit of the consolidated financial statements for the current reporting period and which, therefore, are audit matters of particular importance. We describe these matters in the audit certificate, unless laws or other legal provisions exclude public disclosure of the matter.

OTHER STATUTORY AND LEGAL REQUIREMENTS

OTHER INFORMATION PURSUANT TO ARTICLE 10 EU AR

We were elected as auditors by the Annual General Meeting on July 7, 2017. We were commissioned by the Supervisory Board on October 10, 2017. BDO AG has been the auditor of KAP Beteiligungs-AG since the 2016 financial year without interruption.

We declare that the audit opinions contained in this audit certificate are consistent with the additional report to the Audit Committee pursuant to Article 11 EU AR (Audit Report).

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Silvia Sartori.

Hamburg, April 30, 2018

BDO AG
Wirtschaftsprüfungsgesellschaft

Signed Weichert	Signed Sartori
Auditor	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 30, 2018

KAP Beteiligungs-AG
Management Board

Guido Decker
Chairman of the Management Board

ANNUAL FINANCIAL STATEMENTS AG HGB

Income Statement

From January 1 to December 31, 2017

in € thousands	2017	2016
1. Revenue	2,420	1,516
2. Other operating income	1,913	1,071
3. Expenses for purchased services	1,212	1,071
4. Depreciation	197	197
5. Other operating expenses	7,274	1,925
6. Financial result	39,047	23,455
7. Taxes	916	4,122
8. Earnings after taxes	**33,781**	**18,727**
9. Other taxes	0	1
10. Profit for the year	**33,781**	**18,726**
11. Profit carried forward from the previous year	21,411	9,309
12. Dividend payment	-13,248	-6,624
13. Withdrawals from revenue reserves	0	0
14. Retained earnings	**41,943**	**21,411**

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

Balance Sheet

as at December 31, 2017

ASSETS

in € thousands	2017	2016
A. Fixed assets		
I. Intangible assets	30	0
II. Property, plant and equipment	398	592
III. Financial assets	152,391	142,247
	152,819	**142,839**
B. Current assets		
I. Receivables and other assets	37,384	20,155
II. Cash and cash equivalents	1,916	1,484
III. Prepaid expenses and deferred income	28	0
	39,328	**21,639**
	192,147	**164,478**

LIABILITIES

in € thousands	2017	2016
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	41,943	21,411
	117,429	**96,897**
B. Contributions made to carry out the resolved capital increase	**13,178**	**-**
C. Provisions	**1,639**	**1,862**
D. Liabilities	**59,901**	**65,719**
	192,147	**164,478**

84

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

ADDITIONAL INFORMATION

Index of Tables and Figures

TABLES

FIGURES

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.

E

Electrolytic processes
See electroplating/galvanised surfaces

Electroplating/galvanized surfaces
Electroplating is understood to mean the electrochemical separation of metallic deposits (coatings) on substrates (objects). Electroplating is done by conducting electricity through an electrolytic bath. The metal which is to be applied (for example copper or nickel) is at the positive terminal (anode), while the object to be given the coating is at the negative terminal (cathode). The electric current removes metal ions from the consumable electrode and deposits them on the object through reduction. This way, the object to be plated receives an even, all-over coating of copper or another metal. The longer the object is kept in the bath and the stronger the electric current is, the stronger the metal coating (for example copper coating).

engineered products
Is the name of our largest segment. It includes companies whose common feature is to combine textiles with physicochemical 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”.

G

Galvanizing
(Applying a thin metal coating using electric current) Galvanizing is a widely-used coating method. With the help of electrolysis, metals are coated with a layer of another metal to make them more resistant or attractive.

I

IATF 16949
The IAFT 16949 standard combines the existing general requirements for quality management systems in the automotive industry (mostly in North America and Europe). They were jointly developed by IATF members and published based on the EN ISO 9001.

ISO 14001
The international environmental management standard ISO 14001 determines globally-recognised requirements for an environmental management system and is part of a family of standards. This family of standards contains a number of additional standards relating to various areas of environmental management, including life-cycle assessments and environmental indicators as well as environmental performance evaluations among others.

S

surface technologies
Is the name of our newest segment, which combines the very young and innovative areas of surface coating and finishing. Whether technically functional or decorative, we offer a wide variety of the latest state-of-the-art chemical as well as electrochemical processes in fully automatic production lines.

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 fulfil important functions.

Tribological properties
Tribology relates to the scientific description of friction and the calculation and measurement of friction co-efficients, the wear and tear and the lubrication required between surfaces which interact with one another and which are in motion relative to one another.

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 taxes".

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

EBT
Abbreviation of "Earnings before taxes".

F

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

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

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 are defined as EBIT by the KAP Group.

W

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

Companies

KAP engineered products

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Notes

For your personal notes

FINANCIAL CALENDAR

2018	
Calendar week 23	Publication of the invitation to the Annual General Meeting 2018
Calendar week 26	Mailing of the annual reports
Calendar week 29	Supervisory board meeting, Annual General Meeting 2018
Calendar week 29	Dividend announcement
Calendar week 30	Publication of the voting results of the Annual General Meeting 2018
Calendar week 34	Publication of the interim report (half-year financial report 2018*)
Calendar week 50	Supervisory board meeting with adoption of planning for 2019

*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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+86%

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+23%

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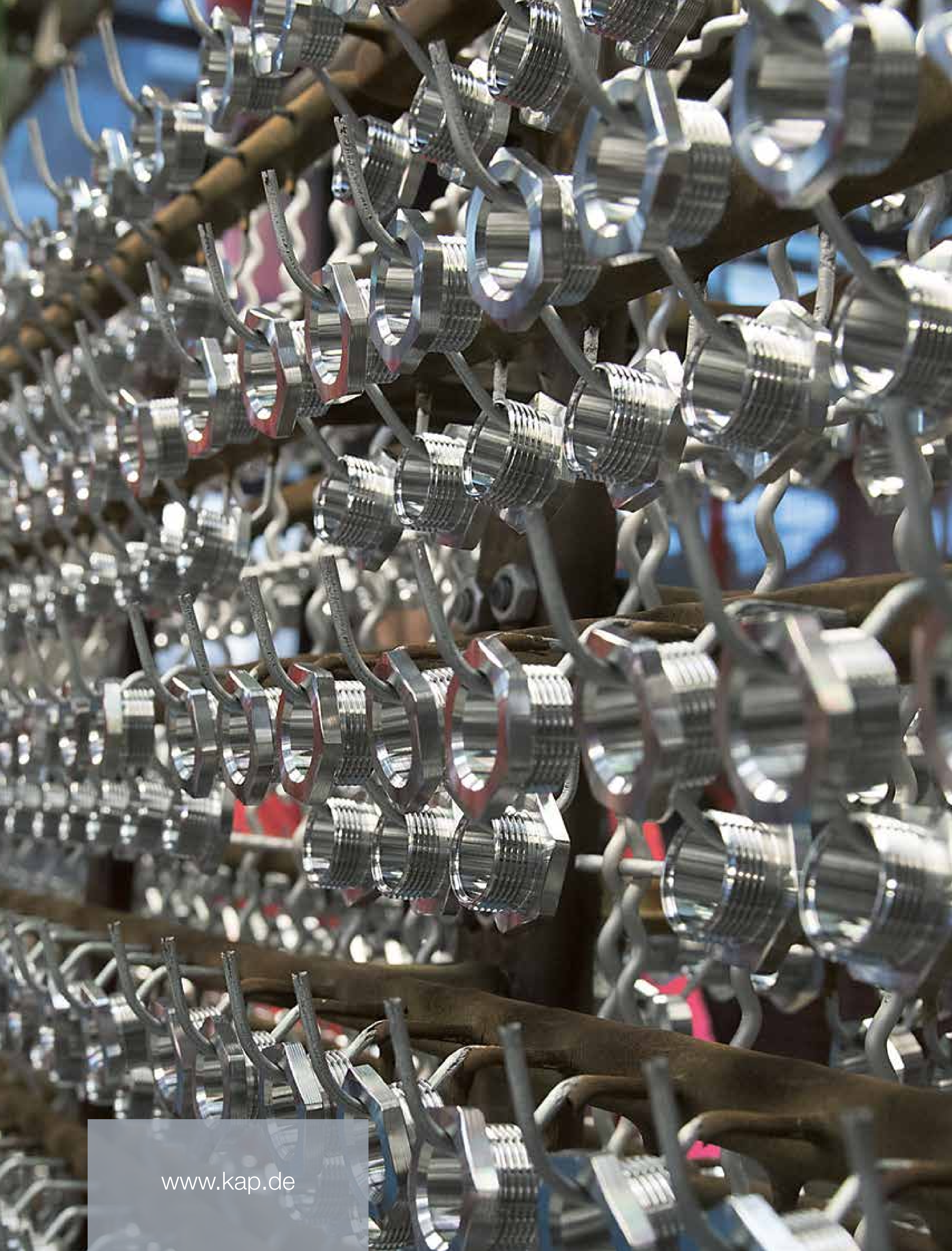
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