Six-month report 2017

KAP Beteiligungs-AG

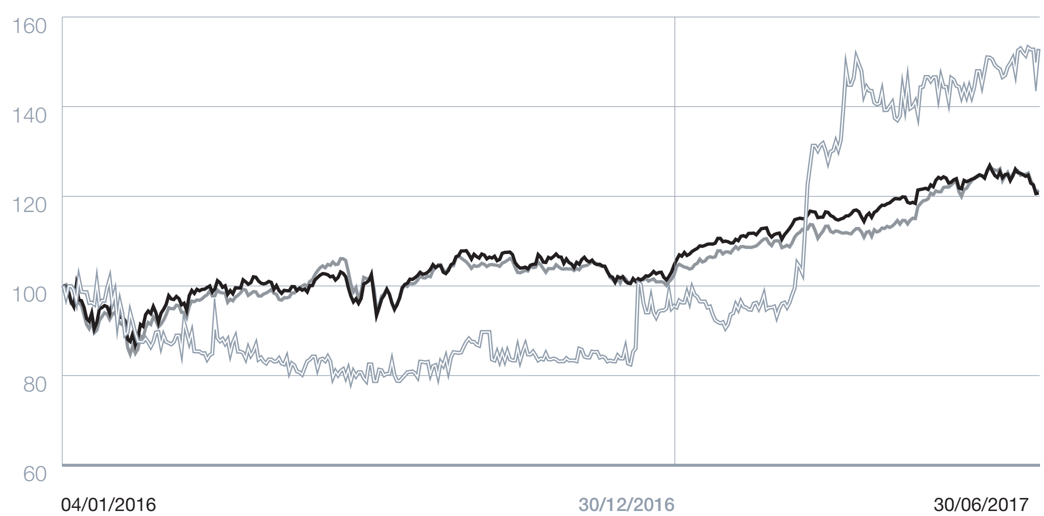
KAP AT A GLANCE

GROUP KEY FIGURES

In € million	01/01–06/30 2017	01/01–06/30 2016	2016
External revenue	215.9	197.6	385.8
Personnel expenses	46.3	44.6	90.1
Investments	8.9	9.6	27.3
Depreciation and amortization	10.5	10.5	21.0
Cash flow[1]	8.1	9.6	29.1
Group result	22.1	5.7	12.8
Fixed assets	144.7	141.2	147.6
Equity	156.0	149.3	147.3
Equity ratio (in %)	49.7	45.7	46.8
Balance sheet total	313.8	326.6	315.0
Earnings per share (after non-controlling interest) in €	3.26	0.81	1.82
Dividend per share in €	-	-	2.00
Average number of employees	2,607	2,606	2,616

[1] Cash flow from operating activities

KAP-SHARE



KAP-Aktie in EUR
Closing price 30/06/2017:
34.90 EUR

MDax
Closing price 30/06/2017:
24,452.30 Points

SDax
Closing price 30/06/2017:
10,846.67 Points

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FINANCIAL CALENDAR

2017	
Week 34	Publication of the interim report (six-month report 2017*)
Week 46	Information on third quarter 2017
Week 49	Supervisory Board meeting with approval of 2018 plan

*The disclosures are not notification announcements pursuant to the Securities Trading Act (Wertpapierhandelsgesetz, WpHG).
All disclosures are not guaranteed.

LETTER TO OUR SHAREHOLDERS

Dear shareholders,

The first half of the 2017 financial year went well and certainly better than expected. Our key performance indicators, such as revenue and operating result, were significantly above plan.

We were able to increase revenues, year-on-year, by 9.3 per cent to €215.9 million (previous year: €197.6 million) and, therefore, for the year as a whole we expect to cross the €400 million revenue threshold with the current group of consolidated companies.

In the **engineered products** segment, revenues rose by 6.8 per cent to €154.9 million EUR (previous year: €145.1 million); all business areas were either close to or above their forecast levels.

The revenues of the **automotive components** segment grew even more strongly, namely, by 16.0 per cent to €61.7 million (previous year: €53.2 million).

The development of the consolidated operating result was also very favorable and at €13.6 million (previous year: €9.4 million) exceeded both the previous year's level and our expectations. We can therefore confirm once again our goal to generate an adjusted operating result of at least €16.5 million for the 2017 financial year. Given that we cannot simply extrapolate the first half year into the second - for seasonal reasons alone - this target still seems realistic to us.

The segment result for **engineered products** at €9.2 million (previous year: €8.1 million) was up year-on-year, yet it did not quite reach our targets. We were satisfied with the increasing profitability of our companies in the threads division, however, the performance of the film and reinforcing supports division lagged behind somewhat.

The **automotive components** segment continued to develop favorably and its performance was in line with the trend of the recent past. The segment result was €4.0 million (previous year: €0.9 million) and thus up on the previous year and ahead of our expectations.

As part of our growth strategy, we are working at full stretch not only by critically reviewing our existing portfolio of companies, but also preparing new and lucrative takeovers. However, first we dealt with the "slumbering reserves" and, in this connection, we sold the entirety of the remaining securities portfolio at the start of the year. We received proceeds of €18.8 million and generated income of €10.9 million. We are now in the process of examining the possibilities for disposing of land and buildings not required for operations. We have good cause to hope that the sale of our project "Design-Hotel im alten Kesselhaus" (Design Hotel in the Old Boiler House), Schäfflerbachstraße can be completed in the second half of 2017.

These funds that have been freed up as well as our low level of net financial debt and the existing free credit lines will enable us to build up additional segments, although one of these will be companies in the surface finishing business. In this still highly fragmented sector we are pursuing a buy & build strategy and are seeking to become a major force in the European format. We still expect to conclude the first agreements in the course of the current financial year.

We have also had some initial success in restructuring the existing portfolio. We agreed to sell our share of 74 per cent in Kirson Industrial Reinforcement GmbH, Neustadt/Donau to the French industrial group Saint Gobain with effect from July 21. Although the transaction is still awaiting approval from the cartel authorities, nevertheless, we hope that clearance will be obtained as early as possible. We took the view that Kirson's development would be even more favorable together with its new owner than we could have been able to realize. These funds will likewise be reinvested.

As you can see, things are happening at KAP Beteiligungs-AG!

Kind regards,

André Wehrhahn
Management Board

Fried Möller
Deputy Member of the Management Board

INTERIM MANAGEMENT REPORT

Assets, liabilities, financial position and profit or loss

In the first half of 2017, the revenues generated, at €215.9 million (previous year: €197.6 million), were up 9.3 per cent year-on-year. Total performance increased by 11.5 per cent from €195.4 million to €217.8 million. The material cost ratio, at 58.5 per cent (previous year: 57.6 per cent), was slightly up on the previous year, while the personnel cost ratio at 21.3 per cent improved slightly (previous year: 22.8 per cent). The operating return was 6.2 per cent (previous year: 4.8 per cent) and was therefore within our target range. The financial result of €11.5 million (previous year: €-2.9 million) represented a significant improvement and was due to income from the deconsolidation of STÖHR in the amount of €2.1 million, as well as to the improved interest result of €-1.4 million (previous year: €-2.4 million), but above all due to the of €10.9 million of income from the sale of the remaining securities portfolio. The result before income taxes was thus €25.1 million (previous year: €6.4 million) and the income tax charge rose to €2.9 million (previous year: €0.7 million). The result for the period was €22.1 million (previous year: €5.7 million) or €3.26 per share (previous year: €0.81).

The balance sheet total of €313.8 million (previous year: € 326.6 million) was almost unchanged when compared with the last balance sheet date of December 31, 2016. Non-current assets, including non-current assets held for sale, at €151.2 million (previous year: €149.6 million), changed only marginally when compared with the €155.3 million on the balance sheet date of December 31, 2016. As regards current assets, on the one hand, inventories rose by €6.0 million from €72.5 million to €78.5 million (previous year: €73.0 million), and trade receivables by €16.3 million from €56.7 million to €73.0 million (previous year: €66.7 million). On the other hand, this was offset by the disposal of the remaining securities portfolio of €18.6 million (previous year: €25.1 million). On a net basis, there was an increase of €2.9 million from €159.7 million to €162.6 million (previous year: €177.0 million) when compared with the balance sheet date of December 31, 2016.

The equity ratio was 49.7 per cent (previous year: 45.7 per cent) and was therefore three percentage points above the level on the balance sheet date of December 31, 2016.

The non-current liabilities fell to €45.1 million (previous year: €51.7 million) and still stood at €49.3 million at the end of December 2016. We reduced non-current financial liabilities to €23.2 million (previous year: €31.5 million). As at the balance sheet date of December 31, 2016, they were €27.0 million.

Current liabilities also decreased and were €112.7 million (previous year: €125.5 million), compared to €118.5 million at the end of December 2016. This was due in particular to the drop in current financial liabilities, which decreased by €15.9 million from €60.9 million to €45.0 million (previous year: €63.2 million). This more than compensated for the increase in other provisions from €25.0 million to €27.2 million (previous year: €27.1 million) and in trade payables from €21.9 million to €29.6 million (previous year: €26.6 million).

Cash flow from operating activities was €8.1 million (previous year: €9.6 million). The slight fall was mainly due to a significantly higher level of funds tied up in net current assets when compared with the previous year. Cash flow from investing activities, at €11.0 million (previous year: €-9.3 million), was positive (previous year: negative) due to €18.8 million of proceeds from the sale of the securities portfolio. Investments in property, plant and equipment (including investment properties) resulted in a cash outflow of €8.4 million (previous year: €9.4 million).

Cash flow from financing activities was substantially negative at €-18.5 million (previous year: €-0.8 million); this was mainly due to repayments of financial liabilities. Our cash and cash equivalents as at June 30, 2017 amounted to €3.1 million (previous year: €2.7 million).

Investments

In the first half of 2017, investments in property, plant and equipment amounted to €8.3 million (previous year: €9.3 million). Investments in the **engineered products** segment were €4.7 million (previous year: €4.2 million) and €3.3 million was invested in the **automotive components** segment (previous year: €5.0 million).

Our site in Portugal was the focus of investments in the **engineered products** segment. Other investments of a notable magnitude were made at our sites in Germany as well as in China and the USA.

The focus areas for our investment activities in the **automotive components** segment were our sites in Germany, especially Dresden, and additionally also in Belarus.

Employees

The number of employees on the interim reporting date was 2,607 (previous year: 2,606).

The share

In the first six months of the current reporting year, the development of the KAP share price was very favorable and a reflection not only of the successful business performance but also the confidence in the future strategic realignment. At the start of 2017, the first closing price was €21.01 and subsequently, up to mid-February, the price remained in a sideways trend within a narrow range from €20.70 to €23.99. Thereafter, the price rose steadily and reached an interim high of €34.50 in mid-March. After a minor setback down to €31.30, the price then remained mostly significantly above that level and reached its high of €35.00 at the end of the half year.

A dividend of €2 per share proposed at the Annual General Meeting 2017 means that the payout continues to be attractive and, with this, we wish to build on our strong performance of recent years. We thus continue to rank among the highest yielding dividend stocks in Germany of the last ten years.

The subscribed capital of KAP Beteiligungs-AG in the amount of €17.224 million is still divided into 6,624,446 shares with an arithmetic share of the share capital of €2.60 per share. The shares are listed on the Frankfurt stock exchange. All shares carry full voting rights. The market capitalization as at the reporting date of June 30, 2017 increased by around 66 per cent to approximately €231 million due to the significant share price gains.

We were able to increase the earnings per share significantly, year-on-year, to €3.26 (previous year: €0.81), although it should be noted that this year's six month result was not inconsiderably positively affected by the sale of our remaining Allianz shares.

Opportunities and risks

A description of the specific risks as well as risk management at the KAP Group was provided in the 2016 Group Management Report, from page 62 onwards, of the Annual Report 2016.

Taking into account all known facts, at present, there are no identifiable risks that could threaten the continued existence of the KAP Group.

Important events during the reporting period

An agreement for the sale of the shares in Kirson Industrial Reinforcements GmbH, Neustadt/Donau was concluded with effect from July 21, 2017. The sale price and the book profit were at the lower end of a double-digit € million range.

Outlook and forecast

In the first six months of the 2017 financial year, we came a step closer towards achieving our goals of, firstly, crossing the revenue threshold of €400 million with the current group of consolidated companies and, secondly, generating an adjusted operating result of €16.5 million. We aim to achieve these goals during the course of the year. However, we are not assuming that we can simply extend the financial performance - which exceeded our expectations - of the first half of the financial year.

In the **engineered products** segment we were able to increase the operating return to 5.9 per cent. Our revenues exceeded expectations but the segment result was below budget. The threads division improved while the film and reinforcing supports division disappointed in part, at least in terms of its results. However, we believe that we are heading in the right direction to achieve target revenue of over €290 million and for the segment result to remain above the €15 million threshold.

In the **automotive components** segment, while revenues and the segment result exceeded our intermediate targets, nevertheless, within the segment the performance was patchy in some cases. For the second half-year we expect that measures will again have to be taken, in particular, to safeguard the income level that has been achieved. At any rate, we want to achieve the target revenue of €110 million. We are expecting lower growth for the segment result.

In the **all other segments** segment, as in the previous year, no operating revenues were generated. The segment result was €-1.1 million (previous year: €-1.1 million). The liquidation of STÖHR & Co. AG i. L. has been completed. The company has been deleted from the commercial register. There is good cause to hope that the project “Design-Hotel im alten Kesselhaus” (Design Hotel in the Old Boiler House) in Schäfflerbachstraße, Augsburg, will now finally be completed in the second half year. No notable contribution to the result is expected from this. We are anticipating a negative segment result for the year as a whole.

We have been granted credit lines by our financing banks for all investments as well as for possible acquisitions. The supply of sufficient liquidity is ensured at all times.

Fulda, August 2017

KAP Beteiligungs-AG
Management Board

André Wehrhahn

Fried Möller

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Consolidated Statement of Income

from 1 January to 30 June 2017

in € thousands	2017 KAP-Group	2016 KAP-Group
Revenue	215,902	197,582
Change in inventories and own work capitalized	1,885	-2,196
Total performance	**217,788**	**195,386**
Other operating income	5,965	5,429
Cost of materials	-127,449	-112,529
Personnel expenses	-46,303	-44,610
Depreciation and amortization of intangible assets, property, plant and equipment (including investment property)	-10,485	-10,522
Other operating expenses	-25,905	-23,786
Operating result	**13,610**	**9,368**
Earnings from financial assets accounted for using the equity method	429	-
Investment income	2,141	-
Interest result	-1,443	-2,404
Other financial result	10,343	-521
Financial result	**11,469**	**-2,925**
Result before income taxes	**25,079**	**6,443**
Income taxes	-2,925	-678
Result of discontinued operations	-61	-105
Income taxes of discontinued operations	-	-
Group result after taxes	**22,093**	**5,660**
Profit share of non-controlling interests	-499	-325
Group result of KAP Shareholders	**21,593**	**5,335**
Earnings per share (in EUR)	**3.26**	**0.81**
Diluted earnings per share (in EUR)	**3.26**	**0.81**

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

Consolidated Statement of Comprehensive Income/Loss

from 1 January to 30 June 2017

in € thousands	2017 KAP-Group	2016 KAP-Group
Consolidated annual result after taxes	**22,093**	**5,660**
Unrealized losses from currency translation	-450	-925
Unrealized losses from financial assets available for sale	-10,749	-6,885
Items which may be reclassified to the income statement in the future	**-11,199**	**-7,810**
Other result after taxes	**-11,199**	**-7,810**
Thereof result after taxes attributable to non-controlling interests	0	0
Thereof result after taxes attributable to shareholders of KAP Beteiligungs-AG	-11,199	-7,810
Total comprehensive income	**10,894**	**-2,150**
Thereof total comprehensive income attributable to non-controlling interests	499	325
Thereof total comprehensive income attributable to shareholders of KAP Beteiligungs-AG	10,395	-2,475

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

Consolidated Statement of Financial Position

as at June 30, 2017

ASSETS

in € thousands	Notes	06/30/2017	12/31/2016	06/30/2016
ASSETS				
Non-current assets				
Intangible assets		1,559	1,741	1,776
Property, plant and equipment		134,400	136,856	131,247
Investment properties		5,037	5,741	6,957
Financial assets accounted for using the equity method		2,439	2,010	0
Other financial assets		1,232	1,232	1,232
Deferred tax assets		6,416	6,743	8,026
		151,084	**154,323**	**149,237**
Current assets				
Inventories		78,496	72,481	73,027
Trade receivables		72,971	56,668	66,682
Actual income taxes		1,876	1,625	3,085
Other receivables and assets		6,233	6,147	6,427
Securities		-	18,624	25,095
Cash and cash equivalents		3,064	4,138	2,687
		162,640	**159,683**	**177,002**
Non-current assets held for sale and discontinued operations	**(6)**	**100**	**1,029**	**348**
		313,823	**315,034**	**326,587**

LIABILITIES

in € thousands	Notes	06/30/2017	12/31/2016	06/30/2016
EQUITY AND LIABILITIES				
Equity and reserves				
Subscribed capital		17,224	17,224	17,224
Capital reserve		48,966	48,966	48,966
Revenue reserves		-15,778	-2,174	-2,118
Retained earnings		102,850	81,269	81,148
KAP Beteiligungs AG shareholders' equity		**153,261**	**145,285**	**145,220**
Non-controlling interests		2,739	2,008	4,097
		156,000	**147,293**	**149,317**
Non-current liabilities				
Provisions for pensions and similar obligations		20,648	20,958	19,271
Non-current financial liabilities		23,247	26,970	31,453
Deferred tax liabilities		649	733	760
Other non-current liabilities		603	607	257
		45,147	**49,269**	**51,741**
Current liabilities				
Other provisions		27,178	25,004	27,146
Current financial liabilities		44,977	60,948	63,215
Trade payables		29,570	21,937	26,585
Actual income taxes		4,540	2,475	553
Other liabilities		6,411	8,109	8,029
		112,677	**118,473**	**125,529**
		313,823	**315,034**	**326,587**

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

Consolidated Statement of Cash Flows

as at June 30, 2017

in € thousands	2017	2016
Earnings before interest and income taxes	**26,461**	**8,742**
Depreciation and amortization of non-current assets (offset against write-ups)	10,485	10,522
Change in provisions	1,938	-199
Other non-cash expenses and income	-11,603	1,206
Losses from the disposal of non-current assets	-532	-164
Cash flow from operating activities before changes in assets and liabilities	**26,750**	**20,107**
Changes in inventories, receivables and other assets not attributable to investing and financing activities	-22,528	-11,943
Changes in payables and other liabilities that are not attributable to investing and financing activities	6,094	7,718
Cash flow from operating activities before interest and income taxes	**10,316**	**15,883**
Interest paid and received	-1,267	-2,199
Income taxes paid and received	-937	-4,112
Cash flow from operating activities	**8,113**	**9,572**
Proceeds from disposals of property, plant and equipment (including investment properties)	751	323
Investments in property, plant and equipment (including investment property)	-8,363	-9,404
Investments in intangible assets	-152	-188
Cash inflow from the sale of securities	18,810	-
Investments in financial assets	-	-12
Cash flow from investing activities	**11,046**	**-9,280**

in € thousands	2017	2016
Cash inflow from borrowings	414	4,918
Cash inflow from repayments of financial receivables	371	102
Disbursements for the repayment of financial liabilities	-19,295	-5,768
Disbursements by granting loans	-	-35
Cash flow from financing activities	**-18,510**	**-783**
Net change in cash and cash equivalents	649	-491
Effect of changes in foreign exchange rates, consolidation group and valuation-related changes in cash and cash equivalents	-1,722	439
Cash and cash equivalents at beginning of period	4,138	2,738
Cash and cash equivalents at end of period	**3,064**	**2,687**

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

For explanatory notes to the Consolidated Statement of Cash Flows see section 8 of the Notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

as at June 30, 2017

in € thousands	Subscribed capital	Capital reserve	Revenue reserves Currency differences	Cash flow hedges	Financial assets available for sale
01/01/16	**17,224**	**48,966**	**-20,338**	**-**	**17,626**
Inflation adjustment in accordance with IAS 29	-	-	-	-	-
Capital increase	-	-	-	-	-
Capital decrease	-	-	-	-	-
Change in revenue reserves	-	-	-	-	-6,885
Dividends	-	-	-	-	-
Currency differences	-	-	-925	-	-
Change in consolidation group	-	-	-	-	-
Group result	-	-	-	-	-
Other changes	-	-	-	-	-
06/30/2016	**17,224**	**48,966**	**-21,264**	**-**	**10,741**
01/01/17	**17,224**	**48,966**	**-19,903**	**-**	**10,749**
Inflation adjustment in accordance with IAS 29	-	-	-	-	-
Capital increase	-	-	-	-	-
Capital decrease	-	-	-	-	-
Change in revenue reserves	-	-	-	-	-10,749
Dividends	-	-	-	-	-
Currency differences	-	-	-450	-	-
Change in consolidation group	-	-	-254	-	-
Group result	-	-	-	-	-
Other changes	-	-	-	-	-
06/30/2017	**17,224**	**48,966**	**-20,607**	**-**	**-**

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

Actuarial gains/losses	Other	Total	Group retained earnings	KAP Shareholders' equity	Non-controlling interests	Total equity
-5,012	**13,418**	**5,693**	**75,830**	**147,713**	**3,772**	**151,485**
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-6,885	-	-6,885	-	-6,885
-	-	-	-	-	-	-
-	-	-925	-	-925	0	-925
-	-	-	-	-	-	-
-	-	-	5,335	5,335	325	5,660
-	0	0	-17	-17	-	-17
-5,012	**13,418**	**-2,118**	**81,148**	**145,220**	**4,097**	**149,317**
-6,436	**13,418**	**-2,174**	**81,269**	**145,285**	**2,008**	**147,293**
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-10,749	-	-10,749	-	-10,749
-	-	-	-	-	-	-
-	-	-450	-	-450	0	-450
-31	-2,122	-2,406	-	-2,406	231	-2,175
-	-	-	21,593	21,593	499	22,093
-	-	-	-13	-13	-	-13
-6,467	**11,296**	**-15,778**	**102,850**	**153,261**	**2,738**	**156,000**

Notes to the Consolidated Financial Statements

1 · GENERAL REMARKS

KAP Beteiligungs-AG has prepared its interim financial statements as at June 30, 2017 in accordance with the International Financial Reporting Standards (IFRS) applicable in the EU Member States. The interim report complies with the requirements of IAS 34 Interim Financial Reporting. It is presented in a condensed format.

The interim financial statements contain information and explanatory notes about items in the Consolidated Statement of Financial Position, Consolidated Statement of Income, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity and the Segment Reports, inasmuch as they are of significance.

The Consolidated Statement of Income was prepared in accordance with the total cost method.

The Group's reporting currency is the euro. Unless otherwise indicated, all information is provided in thousands of euros (€ thousands). As the presentationfigures are presented in € thousands, the numbers may not add up due to rounding differences may occur in the summation.

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

2 · CONSOLIDATION GROUP

The interim financial statements of KAP Beteiligungs-AG as at June 30, 2017 include all material domestic and foreign subsidiaries that are under the legal or factual control of KAP Beteiligungs-AG.

Besides KAP Beteiligungs-AG, the consolidation group includes 22 domestic and 15 foreign companies.

The purchase price allocation is not presented for reasons of materiality. The effects on the assets, liabilities, financial position and profit and loss due to the change to the consolidation group are of minor importance. Therefore, under materiality aspects, explanatory notes regarding the relevant items in the Consolidated Statement of Financial Position and the Consolidated Statement of Income have been omitted.

3 · CONSOLIDATION PRINCIPLES

The acquisition method has been used for all business combinations that occurred after 1 January 2004. The acquired assets and liabilities of the fully consolidated companies are recognized at fair value.

Any difference remaining on the assets side after the purchase price allocation is accounted for as goodwill. Following its allocation to cash-generating units, all goodwill is regularly reviewed for impairment.

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

Any remaining difference on the liabilities side is recognized immediately through profit or loss. Under German commercial law, any difference on the liabilities side from a capital consolidation reported prior to January 1, 2004 is included in revenue reserves.

Shares in the capital and results of fully consolidated subsidiaries that are not attributable to the parent company are reported as non-controlling interests in 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 on the asset side are recorded as goodwill in an auxiliary calculation and regularly subjected to an impairment test. Differences on the liabilities side are immediately recognized as income affecting the result and increasing the carrying amount of the investment.

Intragroup sales, expenses and income, as well as receivables, liabilities and provisions between Group companies are likewise eliminated as are results from intragroup transactions, insofar as they are of significance for the assets, liabilities, financial position and profit or loss.

4 · CURRENCY TRANSLATION

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

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

All assets and liabilities are translated at the mean exchange rate on the balance sheet date while expenses and income are translated at the average rate for the period.

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

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

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

The following currency exchange rates were used:

	Average rate for period		Mean exchange rate on balance sheet date		
€1 =	2017	2016	06/30/2017	12/31/2016	06/30/2016
Belarus Ruble	2.0557	22,317.6772	2.2133	2.0686	22,515.0000
Chinese Yuan Renminbi	7.4417	7.2875	7.7247	7.3252	7.3893
Indian Rupee	71.1760	75.0044	73.6830	71.6388	75.2028
Canadian Dollar	1.4454	1.4846	1.4796	1.4223	1.4409
Swedish Krona	9.5983	9.3011	9.6425	9.5670	9.4213
South African Rand	14.3087	17.1985	14.8974	14.4687	16.4969
Czech Koruna	26.7792	27.0375	26.2360	27.0200	27.1070
Turkish Lira	3.9378	3.2603	4.0098	3.7269	3.2129
Hungarian Forint	309.3659	312.6068	309.3000	309.7500	316.9400
US Dollar	1.0833	1.1161	1.1403	1.0560	1.1143

5 · ACCOUNTING AND VALUATION PRINCIPLES

For the Consolidated Financial Statements of KAP Beteiligungs-AG the single-entity financial statements of alldomestic and foreign subsidiaries are drawn up in accordance with standardized accounting and valuation principles.

Fair value

IFRS 13 – Fair Value Measurement is a largely standardized framework, within International Financial Reporting Standards, for the measurement of fair value and it also includes disclosure requirements. The fair value is the value that would be achieved from the sale of an asset, or the price that would have to be paid to transfer a liability. The 3-level fair value hierarchy according to IFRS 13 is applied. Financial assets and liabilities are assigned to hierarchy level 1 if a quoted price on an active market for assets and liabilities is available. The assignment to hierarchy level 2 is made if a measurement 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. Moreover, the risk of default is taken into account when measuring assets and liabilities.

Intangible assets

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

Acquired intangible assets are recorded at cost at the point of recognition. Besides the purchase price, this cost includes all directly attributable costs incurred in order to make the asset operational.

Internally generated intangible assets are recognized at manufacturing costs. The manufacturing costs include all costs directly attributable to the manufacturing process as well as a reasonable portion of the production-related over costs.

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

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

The costs are amortized according to a straight-line schedule over a period of three to five years.

Goodwill

Goodwill that arises in the course of a business combination and the acquisition of a group of assets and debts 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 assets at their acquisition or manufacturing costs if it is probable that an associated future economic benefit will accrue and the acquisition or manufacturing costs can be reliably measured.

Acquisition costs include all directly attributable costs incurred in order to make the asset operational. Manufacturing costs also include a reasonable portion of the production-related overhead costs in addition to the direct costs.

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

The value of property, plant and equipment is typically depreciated over the following useful lives:

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

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

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or manufacture of a qualifying asset are capitalized as part of the acquisition or manufacturing costs. Qualifying assets are defined as construction projects or other assets that necessarily take at least 12 months to get ready for their intended use or sale.

Leasing

Leases where all significant risks and rewards are borne by the KAP Group as the lessee are classified as finance leases. At the commencement of a lease contract, the leased item is recognized at the lower of fair value or the present value of the minimum lease payments. Scheduled depreciation is charged 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 leases are not met then the lease is classified as an operating lease. When lease payments become due they are recognized immediately as expenses in the lessee's income statement.

Government grants

Government grants are only recorded if it is sufficiently certain that the applicant company fulfills the conditions and the grants will also be awarded. Grants are recognized as income, on a systematic basis, over the period necessary to match them with respective expenses for which they are intended to compensate.

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 initially recognized at acquisition or manufacturing costs. In this case, recognition only occurs if it is probable that the future economic benefit associated with the asset will accrue and the acquisition or manufacturing costs can be reliably measured.

In accordance with the acquisition cost model, investment properties are carried forward at acquisition or manufacturing costs less scheduled depreciation and accumulated impairment losses. Depreciation is charged 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 as well investment property, at each balance sheet date, an assessment is made of whether or not there are any indications that the value of the assets could be impaired. If there are such indications, the recoverable amounts of these assets are estimated.

For goodwill, 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 in the course of a business combination is allocated to the cash-generating unit that benefits from the acquisition. Cash-generating units are defined as the business groups within the segments that have operations that are economically independent from each other. 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 then the impairment loss to be recognized, in the amount of the difference, firstly, reduces the carrying amount of the goodwill and then, proportionately, the carrying amount of the other assets.

Any impairment loss is recognized immediately in the result for the period. For assets with a specific useful life, the depreciation/amortization amounts for future periods are adjusted accordingly.

If there is an indication that an impairment loss for an asset other than goodwill that was recognized in previous reporting periods no longer exists, or not to the same extent, then the recoverable amount of this asset has to be reappraised. The difference that results from the changed estimate of recoverable value is recognized directly in the period result as a reversal of an impairment loss. The reversal of an impairment loss on 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/amortization amounts for future periods are adjusted accordingly.

Financial assets accounted for using the equity method

In the case of investments in associated companies and joint ventures that are accounted for using the equity method, initial recognition is made at acquisition cost plus any difference that may arise on the liabilities side. In the subsequent periods, the carrying amount of the shares changes by the proportionate result for the period. Dividends received are deducted from the carrying amount.

Other financial assets

Interests in non-consolidated companies, investments not accounted for using the equity method and investment securities are initially recognized at acquisition cost and subsequently, due to their minor influence on the assets, liabilities, financial position and profit or loss, at amortized cost. Transaction costs that arise in the course of the acquisition are recognized directly through profit or loss.

Subsequent to their initial recognition, loans are recognized at amortized cost in accordance with their classification as loans and receivables. Impairment losses that have occurred on the balance sheet date are taken into account with appropriate valuation allowances.

Deferred taxes

Deferred taxes are recognized for temporary measurement differences. The calculation is based on the concept of the balance sheet-oriented liability-based method. It encompasses all accounting differences and valuation differences recognized through profit or 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 reasonably probable that sufficient taxable income will be available in future in order to be able to use these tax loss carry-forwards.

Deferred taxes are calculated on the basis of the tax rates that apply or are expected in the individual countries at the time of realization. In the event of changes in tax rates, temporary measurement differences resulting from previous reporting periods are adjusted accordingly.

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

Inventories

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

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

The calculation of the manufacturing costs of unfinished and finished goods also includes, besides the direct costs, the production-related overhead costs based on normal capacity utilization.

Inventory risks with respect to storage time and marketability that result in a net realizable value below that of the acquisition or manufacturing costs are taken into account with appropriate valuation allowances. If the reasons for an impairment loss that occurred already in previous periods no longer apply then there is a reversal of the impairment up to the adjusted net realizable value.

Other receivables and assets
Other receivables and assets are classified as loans and receivables, unless they are derivative financial instruments. They are initially recognized, on the settlement date, at acquisition costs taking into account the directly attributable transaction costs. On the balance sheet date, the measurement is carried out at amortized costs.

Appropriate valuation allowances are made for doubtful and uncollectible 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, which was recognized already in previous reporting periods, has reduced in the past financial year due to circumstances that have arisen in the meantime then the original valuation allowance is adjusted through profit or loss, nevertheless, only to a maximum level where the carrying amount matches the amortized costs which would have resulted without an impairment.

Actual income taxes
Actual income taxes for current and earlier periods are carried as liabilities at the amount still to be paid. If the advance payments already made exceed the amount owed then the difference is carried as a tax asset.

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

Derivatives are recognized for the first time on the settlement date. The fair value is applied 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 maturity, are reported under other non-current liabilities or other liabilities.

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

Securities
Listed shares are classified as financial assets available for sale. The measurement is carried out, at the time of purchase, at acquisition costs and, at the balance sheet date, at the current market price (fair value or market value). The fluctuations in value between the acquisition cost 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 transferred through profit or loss in the statement

of income. If there are objective indications of a permanent impairment then the cumulative losses reported under equity are recognized through profit or loss. The shares are reported under current assets because of the liquidity and realizability on every trading day.

Non-current assets held for sale and discontinued operations

Non-current assets and/or disposal groups as well as the liabilities related to disposal groups are classified as held for sale if the corresponding carrying amounts will be realized principally through sales transactions and not through continued use.

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

Provisions for pensions and similar obligations

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

Actuarial gains and losses are always recognized in full in equity under revenue reserves and shown as other comprehensive income. Service costs are recorded 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 shown on a net basis; a maximum of the present value of the obligations may be offset against the assets.

The interest cost of pension provisions and the return on plan assets are reported on a net basis in the financial result.

Other provisions

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

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

Provisions are only made for restructuring measures if there is a constructive obligation to restructure. This presupposes that there is a formal restructuring plan indicating the business area concerned, the most important locations, the number of employees affected, the costs and the date of implementation, moreover, that a valid expectation has been created among those affected and that the measure will be carried out either by beginning the implementation or notifying those concerned.

Financial liabilities

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

Revenue recognition

Revenues are recognized as soon as the significant risks and rewards have been transferred to the buyer - through the supply to or performance for the customer -, the amount of the revenue as well as the costs that are yet to be incurred 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 work performance progress since the effects on the profit or loss are of minor importance.

The figures that are reported have been reduced by sales deductions.

Earnings per share

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

Estimates

When preparing 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 resulting actual valuations may deviate from the estimated amounts. Adjustments to the valuations are made in the period in which the original estimate is changed. The expenses and income resulting from this are recognized through profit or loss in the respective reporting period. Assumptions and estimates must be made, in particular, when determining useful lives for non-current assets, for impairment tests and purchase price allocations and when making provisions for retirement benefits, taxes and risks arising from the operating business.

Notes to the consolidated financial statements

6 · NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets that are supposed to be sold are reported under this item.

As at the reporting date of June 30, 2017 the carrying amount of €100 thousand (prior year €348 thousand) relates to the property in Kalefeld. The intention to sell remains unchanged.

On the balance sheet date of December 31, 2016, besides the property in Kalefeld with a carrying amount of €100 thousand, the plot of land in Klettgau, with a carrying amount of €929 thousand, was also reclassified.

As at the reporting date of June 30, 2016, the carrying amount related to the property in Kalefeld.

7 · EVENTS AFTER THE BALANCE SHEET DATE

An agreement for the sale of the shares in Kirson Industrial Reinforcements GmbH, Neustadt/Donau was concluded with effect from July 21, 2017. The sale price and the book profit were at the lower end of a double-digit € million range.

8 · CONSOLIDATED STATEMENT OF CASH FLOWS

The Statement of Cash Flows shows cash flows from operating activities, from investing and financing activities separately. The effects of changes in cash and cash equivalents due to foreign exchange rates, the consolidated group as well as of value-related changes 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.

9 · SEGMENT REPORTING

Due to the existing internal financial reporting at the KAP Group, the primary reporting format is broken down into business segments.

In the KAP Group a distinction is made between the segments **engineered products, automotive components** and **all other segments**.

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

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

The segment result is defined as the operating earnings of the respective segment. At Group level, this corresponds to the operating result.

As at June 30, 2017, December 31, 2016 and June 30, 2016, the reclassifications in non-current assets held for sale and discontinued operations related to the segment **‘all other segments’.**

Segment reporting by business area

from January 1 to June 30, 2017

	engineered products		automotive components		all other segments		consolidations		Group	
in € thousands	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue	154,916	145,095	61,728	53,194	1	-	-743	-708	215,902	197,582
Segment result	9,240	8,057	3,987	884	-1,071	-1,071	1,454	1,497	13,610	9,368
Employees 06/30	1,554	1,579	1,018	998	35	29	-	-	2,607	2,606

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

10 · MATERIAL RELATED PARTY TRANSACTIONS

During the previous year, material supply and service relationships existed with companies that are part of DAUN & Cie. AG.

In the first half of 2017 no sales transactions (prior year €41 thousand) were effected with these companies.

11 · AUDITOR'S REVIEW

The condensed interim financial statements and the interim management report were neither reviewed by an auditor nor audited pursuant to section 317 of the German Commercial Code (HGB).

Fulda, August 2017

KAP Beteiligungs-AG
Management Board

André Wehrhahn

Fried Möller

Responsibility Statement

“To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.”

Fulda, August 2017

KAP Beteiligungs-AG

André Wehrhahn

Fried Möller

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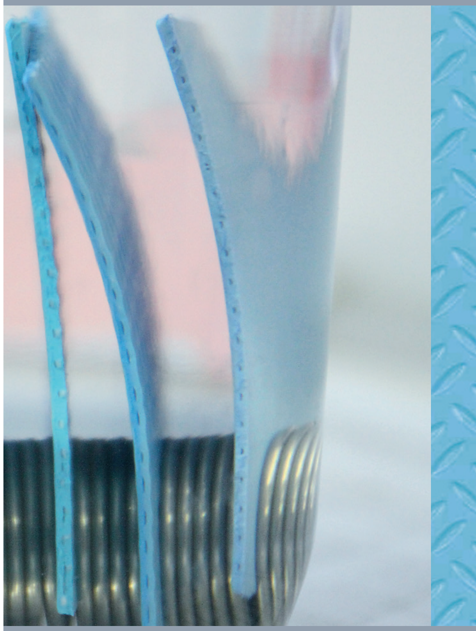
THIS SIX-MONTH REPORT IS ALSO AVAILABLE IN GERMAN.
ONLY THE GERMAN VERSION OF THE SIX-MONTH REPORT IS LEGALLY BINDING.

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

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

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



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