HALF-YEAR REPORT 2019

1 JANUARY TO 30 JUNE 2019

kap

KEY INDICATORS

Selected key indicators

		H1 | 2019	H1 | 2018[1,2]	Change in %
Group				
Revenue	€ millions	199.5	200.3	–0.4
Adjusted EBITDA	€ millions	18.4	21.2	–13.2
Adjusted EBITDA margin	%	9.2	10.6	–13.2
Earnings for the period after taxes	€ millions	–3.5	8.2	nm
Earnings per share	€	–0.45	1.18	nm
Investments	€ millions	7.7	11.3	–31.9
Depreciation	€ millions	19.9	10.2	95.1
Cash flow from operating activities	€ millions	10.8	4.4	>100
		H1 | 2019	**31.12.2018[2]**	**Change in %**
Non-current assets	€ millions	227.7	223.2	2.0
Current assets	€ millions	154.9	150.7	2.8
Equity	€ millions	189.0	191.7	–1.4
Equity ratio	%	49.4	51.3	–3.7
Non-current liabilities	€ millions	99.5	91.1	9.2
Current liabilities	€ millions	94.0	91.2	3.1
		H1 | 2019	**H1 | 2018[1]**	**Change in %**
Employees (30 June)		2,923	2,605	12.2

[1] Figures adjusted for discontinued operations.
[2] Restated as a result of an error correction. For more information, please refer to the Notes to the Consolidated Financial Statements on pages 36 and 37.

CONTENT

LETTER TO OUR SHAREHOLDERS

DEAR SHAREHOLDERS,

After a successful start to the 2019 financial year, our segments proved highly robust in the first half of the year thanks to their good market position, despite the dynamic downturn in the economic environment. As a result, our revenue for the first half of 2019 was almost at the same level as the strong result of the previous year at €199.5 million. At €18.4 million, adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA) were, however, unable to attain the previous year's level of €21.2 million.

Our engineered products and precision components segments were, in particular, affected by the economic downturn, with initial signs of a decrease in demand in the second quarter pushing incoming orders below the previous year's level. Financial performance in the first half of 2019 was shaped by extraordinary influences in the form of the fire at the Heinsdorfergrund site in the surface technologies segment and the irregularities in the engineered products segment. These are briefly summarised below:

In the engineered products segment, additional expenses totalling €7.2 million were incurred due to the results of the investigation of the irregularities. In line with accounting regulations (IAS 8), in 2019 €1.9 million of this is attributable to write-downs of inventories and €2.0 million to expenses connected with the irregularities (e.g. write-downs of receivables and additions to provisions). On this basis, a total of €3.3 million is attributable to previous periods.

The €1.9 million in write-downs include extraordinary items of €0.3 million and the remaining €2.0 million includes extraordinary items of €0.5 million, which were in each case adjusted at Group level. Including the costs to be adjusted that result from the fire, a total of €1.5 million was adjusted in accordance with reporting standards and thus deducted from EBITDA.

A further €4.9 million in impairment losses on production facilities were also caused by the fire and impact EBIT for the 2019 financial year as an extraordinary item.

The existing insurance policy is expected to cover our losses from the fire and we are not only planning to restore the production capacity but also to expand it. Discussions with strategic new clients are already well underway with regard to the use of these additional capacities. As soon as we are able to announce completion, we will be sure to inform you. We have thoroughly reviewed the irregularities in the inventory valuation and concluded our investigation. All extraordinary items have been included in this six-month report, meaning that no further costs are expected in the second half of the year. We have drawn the necessary conclusions from this incident to ensure that this will not happen again in the future. Until a new segment manager has been appointed, the CEO has taken over the direct management of this segment and formed a task force to ensure the seamless continuation of operations.

We had to revise our previous forecast in late June as a result of the events outlined. However, we would like to have comprehensive, validated information about the various factors at play before publishing our new forecast. This includes in particular an estimate of the exact loss of income incurred by the fire and the revalidation of the plans for the engineered products segment to the end of the year. Currently, this only looks likely to be available by Q4 2019. Appropriate measures have been initiated to counter the negative impact on earnings caused by a weaker economy. As a result, not only were sales activities significantly boosted, the cost base was also adjusted accordingly. Further measures will be implemented later.

Over the next two years, realising sales and cost synergies will be the main focus of our work. We continue to have the support of our major shareholders in implementing our plans. Since the challenging market environment has made reallocation impossible, we have now turned all our efforts to the further strategic alignment of our industrial group.

Within a comparably short period of time, we have already achieved a great deal. But we still have much to do. We will work towards these goals with great commitment and enthusiasm within the KAP Group, within the segments and within each individual company. We will not allow ourselves to be discouraged by the economic headwind. We are sure that we are on the right track. At this juncture, we would like to thank our employees, who work tirelessly towards the continuing modernisation of the KAP Group. We would also like to thank you, our dear shareholders, for your support and for the constructive dialogue. We have set ourselves ambitious goals. Let's work together to make them a reality.

Best wishes,

Guido Decker
Chief Executive Officer

Dr Alexander Riedel
Chief Financial Officer

INTERIM MANAGEMENT REPORT

INTERIM MANAGEMENT REPORT

BUSINESS DEVELOPMENT

After a surprisingly strong start to 2019, the economy took a noticeable downturn during the second quarter. The ifo Business Climate Index plunged to just 95.7 points in July 2019 after remaining relatively stable until well into May at over 98 points. In its first bulletin on economic growth, the German Federal Statistical Office published a 0.1% decrease in gross domestic product in the second quarter of 2019 compared with the previous quarter. While the strong market position in attractive niche markets did protect the segments to a certain degree from economic fluctuations, the dynamic pace of the downturn increasingly affected the operating performance of the KAP Group in the second quarter of 2019. The engineered products and precision components segments in particular were affected by lower order volume.

FINANCIAL PERFORMANCE

KAP Group

		H1 | 2019	H1 | 2018 [1,2]	Change in %
Revenue	€ millions	199.5	200.3	–0.4
EBITDA	€ millions	16.9	21.1	–19.9
Adjustments	€ millions	1.5	0.1	nm
Adjusted EBITDA	€ millions	18.4	21.2	–13.2
Adjusted EBITDA margin	%	9.2	10.6	–13.2

[1] Figures adjusted for discontinued operations.
[2] Restated as a result of an error correction. For more information, please refer to the Notes to the Consolidated Financial Statements on pages 36 and 37.

At €199.5 million, revenue in H1 2019 matched last year's level (previous year: €200.3 million). It should be noted here that, for the purposes of a more accurate comparison, the previous year's figure has been adjusted for the revenue contributions of Geiger Fertigungstechnologie GmbH, which was sold in the 2018 financial year. In H1 2018, Geiger still contributed around €28.2 million to our revenue.

Other operating income exceeded the previous year's figure by 27.8% at €6.9 million (previous year: €5.4 million). This growth was influenced in particular by a significant increase in cost reimbursements to €1.1 million (previous year: €0.1 million) and higher insurance compensation, which increased from €0.1 million to €0.4 million. By contrast, gains from the disposal of fixed assets decreased by 75.0% to €0.1 million (previous year: €0.4 million) and gains from currency translation rose by 36.4% to €0.7 million (previous year: €1.1 million).

Cost of materials decreased by 4.9% to €109.6 million (previous year: €115.2 million). In relation to total performance, the cost of materials ratio decreased by 2.4 percentage points to 54.8% (previous year: 57.2%). The main drivers behind this development were the measures initiated and already implemented to increase efficiency in the use of various resources in the various production processes. Personnel expenses rose by 18.1% to €51.5 million (previous year: €43.6 million). This development particularly reflects the acquisition of the Heiche Group. Other operating expenses increased by 8.6% to €29.1 million (previous year: €26.8 million). This increase is also primarily due to changes in the consolidated group.

At €18.4 million, adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA) were below last year's level (previous year: €21.2 million). Here, too, for the purposes of a more accurate comparison, the previous year's figure is adjusted by the EBITDA amount of €3.9 million for Geiger, which was sold in 2018. The adjusted EBITDA figure includes one-time, non-cash extraordinary items amounting to €1.5 million. These items are attributable to the consequences of the fire at the Heinsdorfergrund site in the surface technologies segment and, in the engineered products segment, to remedial write-downs on inventories and goods, as well as one-off effects. As a result, reported EBITDA is at €16.9 million (previous year: €21.1 million).

In the engineered products segment, additional expenses totalling €7.2 million were incurred due to the results of the investigation of the irregularities. In line with accounting regulations (IAS 8), in 2019 €1.9 million of this is attributable to write-downs of inventories and €2.0 million to expenses connected with the irregularities (e.g. write-downs of receivables and additions to provisions). On this basis, a total of €3.3 million is attributable to previous periods.

The €1.9 million in write-downs include extraordinary items of €0.3 million and the remaining €2.0 million includes extraordinary items of €0.5 million, which were in each case adjusted at Group level. Including the costs to be adjusted that result from the fire, a total of €1.5 million was adjusted in accordance with reporting standards and thus deducted from EBITDA.

Depreciation and amortisation include impairment losses of €4.9 million resulting from the fire at our Heinsdorfergrund site, and increased by 95.1% to €19.9 million (previous year: €10.2 million). Consequently, earnings before interest and taxes (EBIT) amounted to €−3.1 million (previous year: €10.9 million). The financial result of €−2.5 million (previous year: €−1.9 million) includes a practically unchanged interest result of €−2.0 million (previous year: €−1.9 million) as well as an other financial result of €−0.5 million (previous year: €−0.1 million). Growth in the other financial result is primarily due to an increase in exchange rate losses of €0.1 million to €0.5 million. The result before income taxes (EBT) amounted to €−5.5 million (previous year: €9.0 million). Taking into account deferred taxes from temporary valuation differences, this results in a positive tax result of €2.2 million (previous year: tax expense of €2.6 million).

engineered products

		H1 | 2019	H1 | 2018[1]	Change in %
Revenue	€ millions	81.9	89.0	–8.0
Adjusted EBITDA	€ millions	3.8	6.8	–44.1
Adjusted EBITDA margin	%	4.6	7.6	–39.4
Investments	€ millions	1.5	2.8	–46.4
Employees		1,018	1,064	–4.3

[1] Restated as a result of an error correction. For more information, please refer to the Notes to the Consolidated Financial Statements on pages 36 and 37.

In H1 2019, revenue in the **engineered products** segment decreased by 8.0% to €81.9 million. This development reflects the initial effects of the economic downturn. Demand for products for hoses and fan belts experienced a particularly marked decline. Revenue from belts for conveyors also decreased. At the same time, some of the applications experienced unexpected growth, particularly air suspension and flexible disc couplings, where a major new client has been acquired. Earnings development is also affected by the necessary write-downs on inventories and goods and by one-off effects. Internal specifications were not adhered to and necessary write-downs were not carried out. The results of the subsequent review led to a non-cash effect on the result totalling €3.9 million, which was fully accounted for in the six-month financial statements. Of this, €0.8 million was adjusted at segment level as a one-time extraordinary item. Adjusted for this, EBITDA amounts to €3.8 million, which is below the previous year's level (previous year: €6.8 million). As a result, reported EBITDA decreased by 55.9% to €3.0 million.

Investments primarily concerned the expansion of capacities in the two fields of fire-retardant products and electromobility. At €1.5 million, the total volume was 46.4% lower in H1 2019 than in the previous year (€2.8 million). The number of people employed in the segment as of 30 June 2019 decreased slightly by 4.3% to 1,018 (previous year: 1,064).

flexible films

		H1 | 2019	H1 | 2018	Change in %
Revenue	€ millions	48.3	48.9	–1.2
EBITDA	€ millions	5.8	6.6	–12.1
EBITDA margin	%	12.0	13.5	–11.1
Investments	€ millions	1.1	0.8	37.5
Employees		325	317	2.5

At €48.3 million, revenue from the **flexible films** segment was just 1.2% lower than in the previous year (previous year: €48.9 million) and proved exceptionally robust in the face of macroeconomic developments. The premium products in the areas of construction, sealing membranes and pool liners also showed very positive growth, with some areas recording increases of over 40%. Agricultural applications also achieved double-digit growth. However, transport protection recorded decreases as a result of the economic environment. While EBITDA decreased by 12.1% to €5.8 million (previous year: €6.6 million), we are still expecting to achieve our targets in this segment for the year as a whole.

The stated objective of R&D activities in the segment is the production of high-quality products for a more broadly diversified market environment. Some advances in this area include polyolefin-based films, which we pushed ahead with in the first half of the year. The innovations in sealing membranes, for example for wet rooms, are largely complete and marketing of these is set to start in the second half of 2019, giving rise to hopes of significant growth in this special niche market.

The focus of our investment activities was on our site in Nordkirchen. Investment volume rose by 37.5% to €1.1 million (previous year: €0.8 million). As of 30 June 2019, 325 people were employed in the segment (previous year: 317), which corresponds to an increase of 2.5%.

surface technologies

		H1 | 2019	H1 | 2018	Change in %
Revenue	€ millions	34.4	13.1	>100.0
Adjusted EBITDA	€ millions	5.8	2.4	>100.0
Adjusted EBITDA margin	%	16.9	18.3	–7.7
Investments	€ millions	3.1	4.2	–26.2
Employees		791	316	>100.0

The **surface technologies** segment is the newest segment within the KAP Group. The acquisition of the Heiche Group led to a significant expansion of operating activities, but because the acquisition was only completed in the second half of 2018, the Heiche Group was not yet part of the segment in H1 2018. Revenue for the segment soared correspondingly to €34.4 million (previous year: €13.1 million) and adjusted EBITDA increased to €5.8 million (previous year: €2.4 million). Overall, the weaker demand was partially offset by further gains in market share. For example, the Polish site showed strong growth in revenue thanks to the conclusion of new contracts in the field of anodisation. Significant effects were also generated by drawing on synergies within the segment in the fields of sales, marketing, key account management and human resources.

The effects of the fire on 26 June 2019 at the Heinsdorfergrund site, where one of the two coating facilities burned down, will affect growth in the segment in the second half of the year and prevent growth from continuing at its previous level. We expect our insurer to fully compensate us for the damage and are planning not only to restore but also significantly expand our production capacities.

During the reporting period, the segment invested €3.1 million, which was below the previous year's level (€4.2 million). The main areas of focus were the further expansion of capacities in Eloxal and anodisation at our site in Poland. As of 30 June 2019, 791 people were employed in the segment (previous year: 316), which represents an increase of 475 employees.

it/services

		H1 | 2019	H1 | 2018	Change in %
Revenue	€ millions	10.3	12.3	–16.3
EBITDA	€ millions	1.3	1.7	–23.5
EBITDA margin	%	12.6	13.8	–8.7
Investments	€ millions	1.0	0.5	100.0
Employees		117	127	–7.9

Revenue in the **it/services** segment fell by 16.3% in H1 2019 to €10.3 million (previous year: €12.3 million). Here, it must be noted that in the previous year, an unusually large order was realised with a volume of around €2.7 million on behalf of the German Federal Office of Administration. When this is deducted, we are up 7.3% on the previous year. EBITDA was €1.3 million (previous year: €1.7 million), i.e. at the same level as last year when the major order is taken into account. A number of promising customers have placed new orders, which means we are sure that we will be able to achieve our annual targets in this segment.

As of 30 June 2019, the number of employees decreased by 7.9% to 117 (previous year: 127).

precision components

		H1 | 2019	H1 | 2018 [1]	Change in %
Revenue	€ millions	26.7	38.9	–31.4
EBITDA	€ millions	3.2	5.1	–37.3
EBITDA margin	%	12.0	13.1	–8.4
Investments	€ millions	0.5	2.5	–80.0
Employees		637	743	–14.3

[1] Figures adjusted for discontinued operations.

Revenue in the **precision components** segment fell by 31.4% in H1 2019 to €26.7 million (previous year, not including Geiger: €38.9 million). This decrease is both due to the strategic decision to abandon orders with low margins, which led to the closure of the Haslach site, as well as the delayed production start-ups for new products. The economic downturn also had a negative impact on the segment and led to a decrease in customer traffic rates. We responded to this by lowering our cost base while massively boosting our sales activities, which has already borne fruit. Two major orders were acquired, one of which is set to commence in September 2019 – and other orders are currently being discussed. EBITDA decreased by 37.3% to €3.2 million (previous year, not including Geiger: €5.1 million). At 12.0%, the EBITDA margin did not quite equal last year's figure (previous year, not including Geiger: 13.1%). Here, too, we are generally on the right path with our segment strategy. With technology transfer in particular, we are expecting to further boost efficiency and cost synergies for our sites.

Due to changes in the consolidated group, the number of staff employed in the segment decreased by 106 to 637 (previous year: 743).

FINANCIAL PERFORMANCE

Cash flow from operating activities increased to €10.8 million in the first six months of 2019 (previous year: €4.4 million), which represents a significant improvement in operating result and underlines our increasing focus on cash. Cash flow from investing activities resulted in cash outflow of €7.3 million (previous year: €13.5 million), which corresponds to a decrease of 45.9%. This drop is almost exclusively due to lower investments in property, plant and equipment (including investment property). Cash flow from financing activities came to a total of €–8.1 million during the first half of 2019 (previous year: €5.4 million).

Selected key indicators on financial performance

in € millions	H1 | 2019	H1 | 2018	Change in %
Cash flow from operating activities	10.8	4.4	>100.0
Cash flow from investing activities	–7.3	–13.5	–45.9
Cash flow from financing activities	–8.1	5.4	nm
Net change in cash and cash equivalents	–4.6	–3.8	21.1
Effect of changes in foreign exchange rates and consolidated group on cash and cash equivalents	0.0	–0.1	nm
Cash and cash equivalents at end of period	7.1	6.2	14.5

FINANCIAL POSITION

As of 30 June 2019, the KAP Group's total assets totalled €382.5 million, up by €8.6 million compared with 31 December 2018.

On the assets side, non-current assets increased by €4.5 million to €227.7 million (31 December 2018: €223.2 million). This reflects, in particular, the increase in property, plant and equipment by €7.0 million to €176.0 million (31 December 2018: €169.0 million) as a result of the first-time recognition of rental and leasing relationships under the new accounting standards (IFRS 16). By contrast, intangible assets decreased slightly by €1.9 million to €40.4 million (31 December 2018: €42.3 million). Current assets rose by €4.2 million to €154.9 million (31 December 2018: €150.7 million). While inventories only changed marginally to €70.1 million (31 December 2018: €67.0 million), trade receivables increased by €6.8 million to €69.7 million (31 December 2018: €62.9 million) and other receivables and assets decreased by €0.3 million to €6.1 million (31 December 2018: €6.4 million). As of the balance sheet date on 30 June 2019, cash and cash equivalents amounted to €7.1 million (31 December 2018: €11.7 million).

Equity decreased by €2.7 million to €189.0 million (previous year: €191.7 million). Non-current liabilities increased by €8.4 million. Following the application of the new accounting standards (IFRS 16) for rental and leasing relationships at the start of the 2019 financial year, non-current financial liabilities increased from €59.4 million at 31 December 2018 to €71.1 million. Deferred tax liabilities decreased by €3.1 million to €10.2 million (31 December 2018: €13.3 million). Current liabilities increased by €2.8 million to €94.0 million (31 December 2018: €91.2 million). Other provisions rose by €2.0 million to €27.4 million (31 December 2018: €25.4 million). Current financial liabilities decreased by €2.6 million to €25.5 million (31 December 2018: €28.1 million). As of the balance sheet date, trade payables were up €4.4 million to €28.7 million (31 December 2018: €24.3 million). Income tax liabilities dropped by €0.9 million to €4.0 million (31 December 2018: €4.9 million). Other liabilities remained largely unchanged at €8.4 million (31 December 2018: €8.4 million).

RISKS AND OPPORTUNITIES

A description of the major risks and opportunities and the principles of the KAP Group risk management system can be found in the 2018 Annual Report from page 73 onwards. Some of the risks listed there with regard to the development of the macroeconomic environment and the risk of decentralised business management/compliance occurred and led to a decrease in the net result, which we countered by lowering our cost base and boosting our sales activities. In light of the economic situation, there is fundamental uncertainty, while the risk arising from decentralised business management was dealt with via decisive, comprehensive action to prevent any further risks from occurring during the course of the rest of the year. The statements made in the 2018 Annual Report regarding the rest of the risk and opportunity situation largely still apply. Taking into account all known factors, no individual risks can currently be identified that could jeopardise the continued existence of the KAP Group. This also applies to the sum of all individual risks.

EVENTS AFTER REPORTING PERIOD

No events of material importance occurred after the reporting period that affect the true and fair view of the operations, the results of operations, the position and the expected development of the company.

OUTLOOK

On 28 June 2019, the Executive Board revised its original forecast for 2019 as a whole. The reasons for this decision included the stronger-than-expected worsening of the economic environment, the necessary write-downs on inventories in the engineered products segment, and the loss of one of two production facilities in the surface technologies segment due to a major fire.

In particular, the economic downturn is currently affecting growth in the engineered products and precision components segments. The surface technologies, flexible films and it/services segments, meanwhile, are robust. The earnings effects resulting from the investigation into the valuation irregularities in the engineered products segment were already carried out in the amount of €3.9 million in the six-month report. The appropriate disciplinary measures were implemented and our internal guidelines and compliance regulations adapted. The fire damage is covered by our property and loss of earnings insurance.

Generally speaking, the environment for all five segments has become more challenging, which means we are estimating a weaker second half as compared to the first. We will only be able to make more accurate statements once an extensive analysis has been issued and the plans for the engineered products segment have been validated at the start of Q4 2019.

CONSOLIDATED FINANCIAL STATEMENTS

DEVELOPMENT OF THE KAP GROUP IN H1 2019

CONSOLIDATED STATEMENT OF INCOME

FROM 1 JANUARY TO 30 JUNE 2019

in € thousands	2019	2018[1]
Revenue	**199,484**	**200,324**
Change in inventories and other own work capitalised	709	974
Total performance	**200,192**	**201,298**
Other operating income	6,867	5,398
Cost of materials	–109,561	–115,227
Personnel expenses	–51,497	–43,555
Depreciation and amortisation of intangible assets, property, plant and equipment and investment property	–19,933	–10,207
Other operating expenses	–29,139	–26,792
Operating result	**–3,070**	**10,916**
Interest result	–1,969	–1,879
Other financial result	–495	–63
Financial result	**–2,463**	**–1,942**
Gains/losses from continuing operations before income taxes	**–5,533**	**8,974**
Income taxes	2,201	–2,624
Gains/losses from continuing operations	**–3,332**	**6,350**
Gains/losses from discontinued operations after taxes	–30	2,332
Earnings after taxes	**–3,362**	**8,682**
Result share of non-controlling interests	–162	–486
Earnings attributable to shareholders of KAP AG	**–3,524**	**8,195**
Undiluted earnings per share (€)		
Gains/losses from continuing operations	–0.45	0.86
Gains/losses from discontinued operations	0.00	0.32
	–0.45	**1.18**
Diluted earnings per share (€)		
Gains/losses from continuing operations	–0.45	0.86
Gains/losses from discontinued operations	0.00	0.32
	–0.45	**1.18**

[1] Adapted due to error correction.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS

FROM 1 JANUARY TO 30 JUNE 2019

in € thousands	2019	2018[1]
Consolidated result after taxes	**–3,362**	**8,682**
Unrealised gains from currency translation	691	–742
Unrealised gains from financial assets available for sale	–	–
Items which may be reclassified in the income statement in the future	**691**	**–742**
Other result after taxes	**691**	**–742**
thereof result after taxes attributable to non-controlling interests	–7	26
thereof result after taxes attributable to shareholders of KAP AG	697	–768
Total comprehensive income	**–2,672**	**7,940**
thereof attributable to non-controlling interests attributable to total comprehensive income	155	512
thereof attributable to shareholders of KAP AG	–2,827	7,428

[1] Adapted due to error correction.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 30 JUNE 2019

in € thousands	Notes to the financial statements	30/06/2019	31/12/2018[1]	30/06/2018[1]	01/01/2018[1]
ASSETS					
ASSETS					
Non-current assets					
Intangible assets		40,443	42,327	21,673	23,015
Property, plant and equipment		175,998	169,026	133,591	152,789
Investment properties		4,523	4,678	4,726	4,881
Financial assets accounted for using the equity method		0	0	0	0
Other financial assets		1,330	1,374	1,211	1,260
Deferred tax assets		5,370	5,802	6,360	6,692
		227,664	**223,207**	**167,561**	**188,636**
Current assets					
Inventories		70,107	67,047	70,508	72,058
Trade receivables		69,720	62,935	77,288	64,300
Income tax refund claims		1,833	2,631	3,381	2,329
Other receivables and assets		6,062	6,400	6,809	10,294
Cash and cash equivalents		7,149	11,727	6,093	10,079
		154,871	**150,740**	**164,079**	**159,061**
Non-current assets held for sale and discontinued operations	**(7)**	**–**	**–**	**38,516**	**–**
		382,535	**373,947**	**370,155**	**347,697**

[1] Adapted due to error correction.

in € thousands	Notes to the financial statements	30/06/2019	31/12/2018[1]	30/06/2018[1]	01/01/2018[1]
EQUITY AND LIABILITIES					
EQUITY AND LIABILITIES					
Equity and reserves					
Subscribed capital		20,177	20,177	18,319	17,224
Capital reserve		86,840	86,840	61,969	48,811
Reserves		–14,746	–15,358	–15,663	–15,088
Net result		94,065	97,598	105,816	97,486
Equity attributable to shareholders of KAP AG		**186,336**	**189,255**	**170,442**	**148,433**
Non-controlling interests		2,695	2,400	5,538	5,365
		189,031	**191,655**	**175,979**	**153,799**
Non-current liabilities					
Provisions for pensions and similar obligations		17,767	18,080	18,173	18,480
Non-current financial liabilities		71,136	59,399	55,283	45,733
Deferred tax liabilities		10,244	13,309	5,628	6,603
Other non-current liabilities		349	349	–	–
		99,496	**91,137**	**79,085**	**70,815**
Current liabilities					
Other provisions		27,380	25,433	29,449	31,150
Current financial liabilities		25,539	28,115	31,971	36,939
Trade payables		28,703	24,292	31,344	27,850
Income tax liabilities		4,031	4,895	3,863	1,984
Other liabilities		8,356	8,419	11,902	25,159
		94,009	**91,155**	**108,529**	**123,083**
Liabilities connected with discontinued operations	(9)		**–**	**6,562**	**–**
		382,535	**373,947**	**370,155**	**347,697**

[1] Adapted due to error correction.

CONSOLIDATED STATEMENT OF CASH FLOWS

FROM 1 JANUARY TO 30 JUNE 2019

in € thousands	2019	2018[1]
Earnings before interest and income taxes	**–3,595**	**13,200**
Depreciation and amortisation of non-current assets (offset against write-ups)	19,933	11,729
Change in provisions	1,622	–474
Other non-cash expenses and income	4,711	–532
Gains/losses from the disposal of non-current assets	–32	–279
Cash flow from operating activities before changes in assets and liabilities	**22,640**	**23,643**
Changes in inventories, receivables and other assets not attributable to investing and financing activities	–13,866	–24,710
Changes in payables and other liabilities which are not attributable to investing and financing activities	4,334	9,220
Cash flow from operating activities before interest and income taxes	**13,108**	**8,154**
Interest paid and received	–1,846	–1,408
Income taxes paid and received	–444	–2,376
Cash flow from operating activities	**10,818**	**4,370**
Proceeds from disposals of property, plant and equipment (including investment property)	389	782
Investments in property, plant and equipment (including investment property)	–7,377	–13,957
Investments in intangible assets	–305	–421
Proceeds from the disposal of financial assets	45	48
Investments in financial assets	–2	–
Cash inflow from repayments of financial receivables	–	2
Disbursements by granting loans	–87	–
Cash flow from investing activities	**–7,337**	**–13,546**
Proceeds from capital increase	–	600
Cash inflow from borrowing	–	15,471
Disbursements for the repayment of financial liabilities	–8,074	–10,706
Cash flow from financing activities	**–8,074**	**5,365**
Net change in cash and cash equivalents	–4,593	–3,810
Effect of changes in foreign exchange rates, consolidation group and valuation-related changes in cash and cash equivalents	15	–79
Cash and cash equivalents at beginning of period	11,727	10,079
Cash and cash equivalents at end of period	**7,149**	**6,190**

[1] Adapted due to error correction.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS OF 30 JUNE 2019

in € thousands	Subscribed capital	Capital reserve	Currency differences	Cashflow-Hedges	Financial assets available for sale
01/01/2018	**17,224**	**48,811**	**–20,521**	**–**	**–**
Error correction	–	–	–	–	–
01/01/2018	**17,224**	**48,811**	**–20,521**	**–**	**–**
Consolidated result	**–**	**–**	**–**	**–**	**–**
Other comprehensive income before taxes	–	–	–768	–	–
Deferred tax on other comprehensive income	–	–	–	–	–
Total comprehensive income	**–**	**–**	**–768**	**–**	**–**
Capital increase	1,096	13,198	–	–	–
Capital decrease	–	–	–	–	–
Dividends paid to shareholders	–	–	–	–	–
Change in consolidation group	–	–	–	–	–
Other changes	–	–40	–	–	–
30/06/2018	**18,320**	**61,969**	**–21,290**	**–**	**–**
01/01/2019	**20,177**	**86,840**	**–20,566**	**–**	**–**
Consolidated result	**–**	**–**	**–**	**–**	**–**
Other comprehensive income before taxes	–	–	697	–	–
Deferred tax on other comprehensive income	–	–	–	–	–
Total comprehensive income	**–**	**–**	**697**	**–**	**–**
Capital increase	–	–	–	–	–
Capital decrease	–	–	–	–	–
Dividends paid to shareholders	–	–	–	–	–
Change in consolidation group	–	–	–	–	–
Other changes	–	–	–	–	–
30/06/2019	**20,177**	**86,840**	**–19,869**	**–**	**–**

		Revenue reserves				
Actuarial gains/losses	Other	Total	Consolidated balance sheet result	Equity attributable to KAP shareholders	Non-controlling interests	Total equity
–4,998	**10,432**	**–15,086**	**98,874**	**149,822**	**5,365**	**155,187**
–	–	–	–1,388	–1,388	–	–1,388
–4,998	**10,432**	**–15,086**	**97,486**	**148,433**	**5,365**	**153,799**
–	**–**	**–**	**8,195**	**8,195**	**486**	**8,682**
–	–	–768	–	–768	26	–742
–	–	–	–	–	–	–
–	**–**	**–768**	**8,195**	**7,427**	**512**	**7,939**
–	–	–	–	14,294	–	14,294
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	193	193	135	287	–340	–53
–4,998	**10,625**	**–15,663**	**105,816**	**170,442**	**5,538**	**175,979**
–5,247	**10,455**	**–15,358**	**97,598**	**189,255**	**2,400**	**191,655**
–	**–**	**–**	**–3,524**	**–3,524**	**162**	**–3,362**
–	–	697	–	697	–7	691
–	–	–	–	–	–	–
–	**–**	**697**	**–3,524**	**–2,827**	**155**	**–2,672**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–84	–84	–9	–92	140	48
–5,247	**10,371**	**–14,746**	**94,065**	**186,336**	**2,695**	**189,031**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL REMARKS

The KAP AG interim report dated 30 June 2019 was issued in compliance with the International Financial Reporting Standards (IFRS) applicable in EU member states. The interim report complies with the guidelines on interim reporting as set out in IAS 34, and is presented in condensed form.

The interim report contains disclosures and remarks concerning items on the consolidated statement of financial position, the consolidated statement of income, the consolidated statement of cash flows, the statement of changes in consolidated equity and on segment reporting, insofar as they are of particular significance.

The consolidated statement of income was prepared in accordance with the total cost method.

The reporting currency for the Group is the euro. All disclosures are issued in € thousands unless otherwise stated. As the figures are presented in € thousands, the numbers may not add up due to rounding.

KAP AG is a listed industrial holding company based in Fulda, Germany, that acquires stakes in traditional SMEs.

2. CONSOLIDATED GROUP

The interim report dated 30 June 2019 includes all of KAP AG's material domestic and foreign subsidiaries under the legal or effective control of KAP AG.

In addition to KAP AG, the consolidated group comprises 34 domestic and 19 foreign companies.

Deconsolidation proceeds from subsidiaries are disclosed under earnings from ceded assets and liabilities. For discontinued operations, they are stated separately under gains/losses from discontinued operations. The transfer of control determines the date of initial consolidation and deconsolidation. The effects on the financial position, cash flows and financial performance due to the change in the consolidated group are explained accordingly, insofar as they are of particular significance.

3. CONSOLIDATION PRINCIPLES

The purchase method is applied to all corporate mergers after 1 January 2004. The assets and liabilities acquired from the fully consolidated companies are included at fair value.

Any active difference remaining following the purchase price allocation is recognised as goodwill. All items of goodwill are regularly reviewed for impairments after they have been allocated to cash-generating units.

Goodwill offset with reserves prior to 1 January 2004 are still offset against revenue reserves. In the event of the complete or partial sale of the division or the impairment of the cash-generating unit, the relevant goodwill is recognised directly in equity.

Any residual passive difference is recognised immediately through profit or loss. Passive differences from capital consolidation recognised prior to 1 January 2004 in accordance with German commercial law are recorded under reserves in compliance with International Financial Reporting Standards.

The interests in equity and profit of fully consolidated subsidiaries which are not attributable to the parent company are shown under equity as non-controlling interests.

Changes to the percentage of shareholdings held in subsidiaries by the parent company that do not lead to loss or takeover of control are recognised as equity transactions.

Shareholdings in joint ventures and associates are recognised using the equity method. Active differences resulting from this are recorded as goodwill by means of a separate calculation and regularly submitted to impairment tests. Passive differences are recognised immediately through profit or loss and increase the carrying amount of the participation.

Intragroup sales, expenses and earnings as well as accounts receivable, liabilities and provisions between consolidated companies are eliminated, as are the results of intragroup transactions, provided these are of significance to the Group's results of financial position, cash flows and financial performance.

4. CURRENCY TRANSLATION

Foreign currency receivables and liabilities are recognised in the individual financial statements at the exchange rate on their date of acquisition. Exchange rate gains and losses from changes in the exchange rate on the balance sheet date are recognised in profit or loss for the period.

The financial statements of the consolidated companies that are denominated in a foreign currency are translated on the basis of the functional currency concept using a modified closing rate method. Since the subsidiaries primarily operate independently in financial, economic and organisational respects, the functional currency is the national currency of the subsidiary's headquarters.

All assets and liabilities are converted using the mean rate of exchange on the balance sheet date, while expenses and income are converted using the average exchange rate for the period.

Currency translation differences resulting from the use of different conversion rates for the balance sheet and the income statement are recognised directly in equity.

For consolidated companies in which KAP AG holds less than a 100% stake, the resulting currency translation differences are recognised separately under non-controlling interests, provided they relate to non-controlling interests.

Currency translation differences resulting from debt consolidation are always recognised in profit or loss.

The following exchange rates were used:

	Average exchange rate over the year		Mean rate of exchange as of the balance sheet date		
€1 =	2019	2018	30/06/2019	31/12/2018	30/06/2018
Belarusian ruble	2.3924	2.4094	2.3226	2.4806	2.3152
Chinese yuan	7.6551	7.7111	7.8250	7.8600	7.7019
Indian rupee	79.0726	79.4785	78.6517	79.9088	79.7544
Polish zloty	4.2925	4.2202	4.2504	4.2981	4.3713
Swedish krona	10.5247	10.1509	10.5518	10.2513	10.4440
Swiss franc	1.1298	1.1698	1.1098	1.1266	1.1568
South African rand	16.0410	14.8933	16.1518	16.4699	16.0708
Czech koruna	25.6833	25.4971	25.4370	25.7240	25.9950
Turkish lira	6.3595	4.9566	6.5750	6.0557	5.3385
Hungarian forint	320.4420	314.0536	323.7200	321.0600	329.4500
US dollar	1.1297	1.2107	1.1383	1.1453	1.1641

5. ACCOUNTING AND VALUATION PRINCIPLES

For the KAP AG consolidated financial statements, the individual statements of all domestic and foreign subsidiaries are provided in accordance with uniform accounting and valuation principles.

Fair value

The measurement of fair value, including the necessary disclosures, is outlined uniformly in the International Financial Reporting Standards via IFRS 13 Fair Value Measurement. Fair value is the value that would be achieved by the sale of an asset or the price that would have to be paid in order to transfer a liability. The three-level fair value hierarchy outlined in IFRS 13 is applied. Hierarchy level 1 comprises financial assets and liabilities where a quoted price for assets and liabilities is available on an active market. Assignment to hierarchy level 2 occurs if a valuation model is applied or the price is derived from comparable transactions. Financial assets and liabilities are assigned to hierarchy level 3 if the fair value cannot be determined based on inputs observable in the market. The risk of default is also taken into account for the measurement of assets and liabilities.

Intangible assets

Intangible assets are only recognised if it is likely that the expected future economic benefits attributable to each asset will flow to the entity and that the acquisition/manufacturing costs of the asset can be reliably determined.

Acquired intangible assets are measured at cost upon initial recognition. In addition to the purchase price, this also includes all directly attributable costs incurred in order to prepare the assets for their intended use.

Internally generated intangible assets are carried at the cost of manufacture. Cost of manufacture includes all costs directly attributable to the manufacturing process, as well as reasonable amounts of the production-related overheads.

Research and development costs are generally treated as current expenses. Development costs are activated and amortised on a straight-line basis if a new product or process can be clearly defined, is technically feasible and it is the company’s intention to either use the product itself or market it. Furthermore, asset recognition requires that there be a sufficient level of certainty that the costs can be covered by future cash inflows.

After initial recognition, intangible assets are carried at cost in accordance with the cost model, taking into account scheduled depreciation and amortisation and impairment losses.

Scheduled amortisation is carried out using the straight-line method over a period of three to nine years.

Goodwill
Upon initial recognition, goodwill arising from business combinations is measured at cost and subsequently at acquisition cost less any accumulated impairment losses.

Property, plant and equipment
Property, plant and equipment is recognised as an asset at cost if it is likely that the associated future economic benefits will flow to the entity and that the acquisition/manufacturing costs of the asset can be reliably determined.

The acquisition cost also includes all directly attributable costs incurred in order to prepare the assets for their intended use. Manufacturing costs include, in addition to direct costs, reasonable amounts of the production-related overheads.

In subsequent periods, property, plant and equipment is reported at cost in line with the cost model, less scheduled depreciation and amortisation and cumulative impairment losses. For assets acquired after 1 January 2004, depreciation is charged exclusively on a straightline basis. If a significant portion of the acquisition costs of an asset can be attributed to components, these are depreciated separately. For assets used in multi-shift operation, the depreciation increases correspondingly.

Tangible fixed assets are measured according to the following useful lives:

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

Depreciation is recorded for as long as the residual value of the asset does not exceed the carrying amount.

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

Leasing
For each leasing relationship, the KAP Group recognises a right of use and corresponding lease liability as the lessee. In doing so, it exercises the option to measure the right of use against the lease liability, adjusted for prepaid or accrued rental expenses.

It exercises the exemptions for current leases with a term of less than twelve months and leases for low-value assets with an original price of under €5,000. Payments attributable to these leases are recorded as expenses. Lease and non-lease components are also summarised when recording leases.

Rights of use resulting from leases are measured at cost upon initial recognition. Acquisition costs include the following components: lease liability amount initially recognised; lease payments made before or at the start of the lease; minus incentive payments to the lessee and any initial direct costs to the lessee.

Since the KAP Group applies the cost model, the rights of use will in future be recognised at amortised cost less cumulative scheduled depreciation and amortisation and cumulative impairment costs. The lease term is used as a basis for determining amortisation and depreciation. This does not apply if ownership of the leased object is transferred to the KAP Group as the lessee exercising its buying option or as result of a contractual agreement. In such cases, the economic useful life of the asset is used as the basis for determining amortisation and depreciation.

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

The lease liability is adjusted in accordance with the effective interest method. The amount of lease payments made is deducted from the lease liability and the interest component attributable to the liability is realised as income under interest result.

The rights of use are recognised in the balance sheet items where the underlying assets would be recognised if they were owned by the Group.

Government grants

Government grants are only recorded if there is sufficient certainty that the company making the application fulfils the conditions and that the grants will be paid. Grants are recognised as income on a systematic basis over the periods in which the relevant expenditure is to be compensated.

Grants relating to assets are reduced by the carrying amount for the asset in question.

Investment properties

Land and buildings not essential to operations are classified as investment properties and measured at cost upon initial recognition. They are only recognised if it is likely that the future economic benefits associated with the asset will flow to the entity and that the acquisition/manufacturing costs of the asset can be reliably determined.

Investment properties are reported at cost in line with the cost model, less scheduled depreciation and amortisation and cumulative impairment losses. Depreciation is carried out using the straight-line method over a period of seven to 50 years.

Impairment of non-current non-financial assets

At each balance sheet date, intangible assets with a finite useful life, property, plant and equipment and investment properties are assessed as to whether there are indications of the impairment of an asset. If such indications are present, an estimate is made as to the recoverable amount for each individual asset unless an asset generates cash inflow that is not largely independent of other assets or groups of assets (cash-generating units).

Goodwill acquired through business combinations is attributed to the cash-generating unit deriving benefit as a result of the acquisition. The financially independent group companies within the segments are defined as cash-generating units. Allocation takes place at the latest in the period following the acquisition.

Goodwill and other intangible assets with an indefinite useful life are tested for impairment every year at each balance sheet date – or whenever there is an indication of an impairment – by comparing the carrying amount with the recoverable amount at the level of the cash-generating unit. If the carrying amount of the unit is higher than its recoverable amount, the impairment losses recognised in the amount of the difference first reduce the carrying amount of goodwill and then the other assets of the unit pro rata. All impairment losses are recorded immediately in the profit or loss for the period. For assets with finite useful lives, the depreciation amounts are adjusted accordingly for future periods. If there is reason to believe that impairment losses recorded for an asset, with the exception of goodwill, in earlier reporting periods no longer exist or have been reduced, the recoverable amount of this asset must be reassessed. The difference resulting from the reassessment is reversed immediately in the profit or loss for the period. A reversal of the reassessed recoverable amount is limited to the carrying amount that would have resulted from the amortised cost. The depreciation amounts are correspondingly adjusted for future periods.

Financial assets accounted for using the equity method
For participations in associates and joint ventures valued according to the equity method, the initial recognition at cost is stated plus any passive differences. In subsequent periods, the carrying amount for the shares is amended by the proportional share of profit or loss for the reporting period. Payouts received are offset by the carrying amount. Where required, write-downs are carried out to the lower fair value.

Other financial assets
Shares in non-consolidated companies, shareholdings not accounted for under the equity method and investment securities are recorded at fair value without any effect on profit or loss. Changes in fair value are recorded as profit or loss under other comprehensive income.

In line with the classification as other financial assets held at amortised cost, loans are initially recognised at cost and at amortised cost on subsequent balance sheet dates. Impairments occurring on the balance sheet date are accounted for by appropriate valuation adjustments.

Deferred taxes
Deferred taxes are set up for temporary valuation differences and are determined according to the balance-sheet-oriented liability method. This method comprises all accounting or measurement differences, whether or not they affect net income, provided they lead to an increase or decrease in the tax burden in the future.

Deferred taxes on losses carried forward are capitalised if there is sufficient likelihood that there will be ample taxable income in the future to benefit from these loss carryforwards.

Deferred taxes are determined on the basis of the tax rates which apply in the various countries at the time of realisation or the rates which can be anticipated. Temporary measurement differences resulting from earlier reporting periods are adjusted correspondingly when there are changes to the tax rate.

Deferred tax assets and liabilities are offset if there is an enforceable right to offset actual tax refund claims against actual tax liabilities and if the tax assets and liabilities relate to income taxes levied by the same tax authority for the same taxable entity.

Inventories
Inventory assets are valued either at cost or at net realisable value, whichever is lower.

The acquisition costs of raw materials, consumables and merchandise comprise all directly attributable costs.

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

Inventory risks with regard to stockholding periods and usability that lead to a net realisable value that is lower than the cost of acquisition or production are taken into account via appropriate value adjustments. If the reasons for the value adjustment occurring in previous periods no longer exist, a reversal is made up to the adjusted net realisable value.

Other financial receivables and assets
Other receivables and assets are classified as financial assets held at amortised cost, provided they do not constitute derivative financial instruments. Upon initial recognition on the settlement date, they are recorded at cost, also taking into account directly attributable transaction costs. The measurement on the balance sheet date is at amortised cost. Appropriate value adjustments are made on the basis of the credit losses expected over the term. Unrecoverable receivables are recorded as bad debts. Receivables that do not bear interest or bear below-market interest rates and have a term of over one year are reported at their present value.

If an impairment carried out in earlier reporting periods has decreased as a result of interim circumstances in the past financial year, the original impairment is adjusted in profit or loss, at most until the carrying amount corresponds to the amortised cost that would have occurred without the impairment.

Income tax refund claims and income tax liabilities
Actual income taxes for the period under review and earlier periods are recognised as liabilities to the outstanding amount. If the advance payments already made exceed the amount owed, the difference is recognised as a refund claim.

Derivative financial instruments
Derivative financial instruments are acquired to hedge against currency and interest rate risks from business operations and related financing activities.

Derivatives are initially entered on the settlement date. The fair value is determined as of the balance sheet date. Derivatives with positive fair values are recorded under other receivables and assets, while derivatives with negative fair values are recorded under other non-current liabilities or other liabilities, depending on their term.

Non-current assets held for sale and discontinued operations
Non-current assets and/or disposal groups, as well as liabilities attributed to disposal groups, are classified as held for sale if the relevant carrying amounts are realised predominantly through sale transactions and not through continued use.

These non-current assets and/or disposal groups are recognised on the balance sheet date at either the carrying amount or at fair value less costs for disposal, whichever is lower. They are shown separately from other assets on the balance sheet. Liabilities from non-current assets and disposal groups classified as held for sale are shown separately from other liabilities.

Provisions for pensions and similar obligations
Provisions for pensions are based on actuarial reports issued at the end of each financial year. Obligations are determined in accordance with the projected unit credit method. In addition to the pension entitlements already earned in previous periods, specific trend assumptions are taken into account in the calculation.

Actuarial gains and losses are always fully recognised in equity as other comprehensive income under revenue reserves. Service expenses are recorded under personnel expenses.

Qualifying insurance policies are treated as plan assets and are measured at fair value on the balance sheet date. The value of the plan asset reduces the present value of the defined benefit obligations. They are offset on the balance sheet up to the value of the present value of the obligations.

Expenses related to interest accruals on pension provisions, as well as income from plan assets, are offset in the financial result.

Other provisions
Other provisions comprise all current obligations to third parties that are related to past events, that are likely to be claimed and whose foreseeable amount can be estimated with reasonable reliability.

They are measured on the basis of future cost increases to the settlement amount with the highest possible likelihood of occurrence.

Restructuring measures are only recognised if there is an actual obligation to restructure. This requires a formal restructuring plan for the affected division, the key sites, the number of employees affected, costs and time of implementation, as well as a reasonable expectation among those affected that the measures will be carried out with the start of implementation or its announcement to those affected.

Share-based payment

Share-based payment refers to a virtual share option programme with cash compensation. On the respective balance sheet date at the end of the year, a provision proportionate to the level of the fair value of the payment obligation is set aside; any changes in the fair value are recognised in profit or loss. The fair value of the virtual share options is determined using the Black-Scholes-Merton model.

Financial liabilities

Financial liabilities are classified as at amortised cost. Directly attributable transaction costs are recognised immediately as expenses in the result for the period. On the balance sheet date, the measurement is carried out at amortised cost using the effective interest method.

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

Revenue recognition

Revenue is recognised when control of definable goods or services is transferred to the customer. This means that the customer is able to determine the use of the transferred goods or services and essentially derive the remaining benefit from them. Revenue is recognised when there is an enforceable claim to receive payment from the customer. Revenue corresponds to the contractually agreed transaction price.

If the agreed transaction price contains variable components, the amount of consideration is determined either by the expected method or by the most likely amount.

The period between payment by the customer and the transfer of goods or services to the customer must be one year or less. For this reason, no financing components are recognised in the transaction price. If an agreement comprises several definable performance obligations, the transaction price is divided up between the individual performance obligations on the basis of the individual sale prices. Generally speaking, goods and services are sold at the individual sale prices. Revenue from customer contracts is recognised on a time and period basis. If the performance of the service and the receipt of the payment from a customer do not fall on the same date, contractual assets or liabilities may arise.

When new contracts are concluded with customers, order acquisition costs may arise. Since the term of contracts resulting in order acquisition costs and the relevant amortisation period for order acquisition costs amount to one year or less, order acquisition costs are not capitalised but recognised as an expense.

Revenue from the sale of goods: Revenue from the sale of goods is recognised at the time of delivery since this is the point at which control of the goods is transferred to the customer. The claim for payment arises at the time of delivery.

Bill-and-hold agreements are generally not concluded. However, if a customer requests a bill-and-hold agreement, the revenue is recognised at the time of completion since control is transferred to the customer without the physical dispatch of the goods. In the case of a bill-and-hold agreement, the goods are shown separately from those of the customer and may not be used in any other way.

In the case of consignment agreements, control of the goods is transferred to the customer at the time they are removed from the consignment warehouse since the customer cannot derive any benefit from the use of the goods prior to this time. It is at this point that revenue is recognised.

Revenue from the performance of services: Revenue from the performance of services is recognised over the duration of the performance (on either a straight-line basis or according to stage of completion). Generally, the period of performance is one week or less. The payment claim arises after the performance of the service, once an invoice is issued. For long-term orders, monthly invoices are generally issued to the customer. The company uses output-oriented methods for revenue recognition. Contractual liabilities are formed for advance payments.

Warranties: With the sale of its products/services, the company is only subject to statutory warranty obligations, or obligations that meet industry standards.

Earnings per share

Earnings per share are determined by dividing the result for the period attributable to the ordinary shareholders of the parent company (consolidated result of KAP AG shareholders) by the average number of ordinary shares in circulation in the reporting period.

Estimates

When preparing these consolidated financial statements, estimates must be made for various items that may have an impact on the recognition and measurement of assets and liabilities, expenses, income and contingent liabilities. The resulting valuations may deviate from the estimated amounts. The value adjustments are made in the period in which the original estimate was amended. Any resulting expenses or income are recorded in profit or loss in the relevant reporting period. Assumptions and estimates must primarily be made when determining the useful lives of non-current assets, when conducting impairment tests and purchase price allocations, and when setting up provisions for pensions, taxes and risks from business operations.

Changes to the consolidated financial statements

It was established that the valuation of inventories and the recognition of a provision for performance-related remuneration in the engineered products segment should have been conducted differently in the KAP AG consolidated financial statements. This has led to an error under IAS 8. As a result, the consolidated financial statements must be adjusted retroactively as of 1 January 2018.

Write-downs on inventories were not carried out to the extent required by the storage time and usability. As a result, inventory risks leading to a net realisable value that is lower than the cost of acquisition or production were not taken into account via appropriate value adjustments. Furthermore, a provision for performance-related remuneration was not recognised in the period for which the remuneration is granted.

The error is corrected through the interim report for the period ended 30 June 2019. The comparative figures for the previous year for the condensed consolidated interim financial statements – comprising the consolidated statement of income, the consolidated statement of comprehensive income/loss, the consolidated statement of changes in equity and the consolidated statement of cash flows, as well as select explanations from the notes to the consolidated financial statements – and the KAP AG interim management report have been adjusted.

The error correction had the following effects:

Consolidated statement of income

	01/01–31/12/2018		
in € thousands	As published and audited	Adjustment	After error correction
Change in inventories	4,459	–783	3,676
Cost of materials	–219,422	–249	–219,671
Personnel expenses	–92,649	–279	–92,928
Income taxes	–5,029	394	–4,635
Consolidated result after taxes attributable to KAP shareholders	14,771	–917	13,854

Consolidated Statement of Financial Position

	31/12/2018		
in € thousands	As published and audited	Adjustment	After error correction
Deferred tax assets	4,813	989	5,802
Inventories	70,062	–3,015	67,047
Total assets	375,973	–2,026	373,947
Net result	99,903	–2,305	97,598
Other provisions	25,154	279	25,433

01/01–30/06/2018		
As published and audited	Adjustment	After error correction
1,449	–475	974
–115,119	–108	–115,227
–	–	–
–2,799	175	–2,624
8,603	–408	8,195

30/06/2018			01/01/2018		
As published and audited	Adjustment	After error correction	As published and audited	Adjustment	After error correction
5,589	771	6,360	6,097	595	6,692
73,074	–2,566	70,508	74,041	–1,983	72,058
371,951	–1,796	370,155	349,085	–1,388	347,697
107,612	–1,796	105,816	98,874	–1,388	97,486
–	–	–	–	–	–

6. NEW ACCOUNTING STANDARDS

As lessee, the KAP Group will apply the new IFRS 16 guidelines for the first time from 1 January 2019, as described under the section entitled "Leases". In accordance with the transitional provisions, the previous year's figures are not adjusted. Assets for the rights of use of leased items were recorded in the amount of €16,383 thousand, in the same amount as lease obligations.

The IFRS 16 regulations for accounting by the lessor have not changed significantly from the prior standard, IAS 17. The activities of the KAP Group as a lessor are generally deemed immaterial. As a result, there is no significant impact on the interim report.

The weighted average incremental borrowing rate of interest was around 2.2%. There is a difference between the expected value for the first-time recognition of the usage right according to IFRS 16 as communicated in the consolidated financial statements for the year ended 31 December 2018 and the final value determined. This difference is primarily due to a revaluation of variable components that affect the calculation of lease payments. Variable components that were not yet to be accounted for were included in the preliminary estimate for major property rental agreements in the consolidated financial statements for the year ended 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

This item lists assets that are to be sold.

The assets of Geiger Fertigungstechnologie GmbH were reclassified as of 30 June 2018:

in € thousands	30/06/2018
Intangible assets	139
Property, plant and equipment	21,440
Deferred tax assets	397
Inventories	8,512
Trade receivables	7,641
Other receivables and assets	290
Cash and cash equivalents	97
	38,516

8. EQUITY

The subscribed capital amounts to €20,176,917.80 (previous year: €18,319,316.60) and is divided into 7,760,353 (previous year: 7,045,891) no-par value bearer shares.

9. LIABILITIES CONNECTED WITH DISCONTINUED OPERATIONS

This item lists liabilities that are to be directly attributed to discontinued operations.

The liabilities of Geiger Fertigungstechnologie GmbH were reclassified as of 30 June 2018:

in € thousands	30/06/2018
Other provisions	1,411
Trade payables	4,683
Other liabilities	468
	6,562

10. GAINS/LOSSES FROM DISCONTINUED OPERATIONS

The income and expenses allocable to Geiger Fertigungstechnologie GmbH are as follows:

in € thousands	2018
Revenue	28,235
Change in inventories and other own work capitalised	1,616
Total performance	**29,851**
Other operating income	185
Cost of materials	–15,069
Personnel expenses	–8,495
Depreciation and amortisation of intangible assets, property, plant and equipment and investment property	–1,522
Other operating expenses	–2,543
Operating result	**2,407**
Result before income taxes	**2,407**
Income taxes	–16
Earnings after taxes	**2,392**
Result share of non-controlling interests	–162
Earnings attributable to shareholders of KAP AG	**2,229**

Furthermore, the gains/losses from discontinued operations relate to the decrease in liability obligations in the amount of €–30 thousand (previous year: €–60 thousand). We have a commitment to the acquiring party of the MVS Group, which was sold in the 2014 financial year, for any risks arising from warranties and price audits for revenue up to the time of the disposal of the shares. The amount is allotted to KAP AG shareholders.

11. EVENTS AFTER THE BALANCE SHEET DATE

Up until 29 August 2019 (publication approval by the Executive Board), no material events have occurred after the balance sheet date.

12. CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows presents the individual cash flows from operating, investment and financing activities. Changes in cash and cash equivalents due to foreign exchange rates, the consolidated group and valuation-related changes are eliminated and recognised separately.

Cash and cash equivalents comprise the liquid assets reported on the balance sheet date. Cash flow from operating activities is calculated using the indirect method. The direct method is used to present the cash flow from investing and financing activities.

In H1 2018, the share of Geiger Fertigungstechnologie GmbH in the cash flow from operating activities amounted to €2,351 thousand, in the cash flow from investing activities amounted to €–2,915 thousand and in the cash flow from financing activities amounted to €0 thousand.

13. SEGMENT REPORTING

As a result of the internal financial reporting in place within the KAP Group, the primary reporting format is broken down by business segment.

For reasons of transparency, the KAP Group has distinguished between the **engineered products, flexible films, it/services, precision components** and **surface technologies** segments since the 2018 financial year. As of the 2019 financial year, GM Tec Industries Holding GmbH has been assigned to the **precision components** segment and KAP Surface Holding GmbH has been assigned to the **surface technologies** segment. The comparative figures for the previous year have been adjusted accordingly.

The accounting and valuation methods used correspond to those used in the consolidated financial statements. Intragroup sales are processed at standard market prices and correspond to the at-arm's-length principle.

The segment result is defined as the segment EBITDA (earnings before interest, taxes, depreciation and amortisation and the result from ceded assets and liabilities). At Group level, the segment EBITDA corresponds to the EBITDA for the Group.

The reclassification as non-current assets held for sale and discontinued operations affects the **precision components** segment as of 30 June 2018.

The **surface technologies** segment includes impairment losses amounting to €4,897 thousand (previous year: €0 thousand).

SEGMENT REPORTING BY BUSINESS AREA

in € thousands	engineered products*	flexible films	it/services
01/01–30/06/2019			
Revenue	81,946	48,295	10,335
Segment result[1]	3,005	5,847	1,289
Scheduled depreciation and amortisation	3,838	1,867	509
Operating result[2]	–833	3,980	780
Investments[3]	1,538	1,072	965
Working capital	63,862	24,825	2,173
Employees as of 30 June	1,018	325	117
01/01–30/06/2018			
Revenue	89,027	48,867	12,329
Segment result[1]	6,823	6,561	1,654
Scheduled depreciation and amortisation	3,540	1,658	425
Operating result[2]	3,284	4,904	1,229
Investments[3]	2,834	805	476
Working capital	62,841	27,536	2,981
Employees as of 30 June	1,064	317	127

* The previous year's figures were adjusted as a result of an error correction.

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

[1] The segment result is defined as the segment EBITDA.
[2] The operating result for the surface technologies segment includes impairment losses amounting to €4,897 thousand (previous year: €0 thousand).
[3] Relates to intangible assets and property, plant and equipment.
[4] The previous year's figures were adjusted as a result of the assignment of GM Tec Industries Holding GmbH to this segment.
[5] The previous year's figures were adjusted as a result of the assignment of KAP Surface Holding GmbH to this segment.

14. SIGNIFICANT RELATED-PARTY TRANSACTIONS

The volumes of related-party transactions undertaken during the financial year and still outstanding as of the balance sheet date can be broken down as follows:

in € thousands	2019	2018
Associated companies		
Deliveries and services provided to associated companies		
Interest income from loans granted	30	37
Receivables from associated companies		
Loans	1,041	1,134
Financial receivables	65	62
Liabilities to associated companies		
Financial liabilities	7	–

There are no new or amended business relationships.

precision components[4]	surface technologies[5]	Reconciliation	Consolidation	Continuing operations
26,663	34,437	2	–2,194	199,484
3,238	5,199	–3,241	1,526	16,863
2,155	6,128	410	130	15,037
1,084	–5,826	–3,651	1,396	–3,070
477	3,079	550	–	7,680
16,350	5,604	–1,529	–160	111,124
637	791	35	–	2,923
38,863	13,116	0	–1,879	200,324
5,073	2,405	–2,959	1,566	21,123
2,219	1,826	411	129	10,207
2,853	579	–3,370	1,438	10,916
2,513	4,195	493	–	11,316
19,777	3,102	312	–96	116,452
743	316	38	–	2,605

15. CONTINGENT ASSETS AND LIABILITIES

A contingent asset arises from possible reimbursement payments by the insurance company for losses caused by the fire at the Heinsdorfergrund site on 26 June 2019. The amount cannot be reliably estimated at this time.

RESPONSIBILITY STATEMENT

“To the best of our knowledge, and in accordance with the applicable accounting principles, we confirm that the consolidated financial statements give a true and fair view of the results of financial position, cash flows and financial performance of the Group, and that 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 remainder of the financial year.”

Fulda, 29 August 2019

KAP AG
Executive Board

Guido Decker	Dr Alexander Riedel
Chief Executive Officer	Chief Financial Officer

REVIEW REPORT

To KAP AG, Fulda

We have reviewed the half-year consolidated financial statements comprising the consolidated statements of income, comprehensive income, financial position, cash flows and changes in equity, and notes to half-year consolidated financial statements, and the interim group management report, of KAP AG, Fulda for the period from January 1, 2019 to June 30, 2019 which are part of the half-year financial report pursuant to Sec. 115 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the half- year consolidated financial statements in accordance with IFRS applicable to interim financial reporting as issued by the IASB and as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the Company's management. Our responsibility is to issue a report on the half-year consolidated financial statements and the interim group management report based on our review.

We conducted our review of the half-year consolidated financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW - Institute of Public Auditors in Germany) and in supplementary compliance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the half-year consolidated financial statements are not prepared, in all material respects, in accordance with IFRS applicable to interim financial reporting as issued by the IASB and as adopted by the EU and that the interim group management report is not prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to making inquiries of company personnel and applying analytical procedures and thus does not provide the assurance that we would obtain from an audit of financial statements. In accordance with our engagement, we have not performed a financial statement audit and, accordingly, we do not express an audit opinion.

Based on our review nothing has come to our attention that causes us to believe that the half-year consolidated financial statements are not prepared, in all material respects, in accordance with IFRS applicable to interim financial reporting as issued by the IASB and as adopted by the EU or that the interim group management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim group management reports.

Frankfurt am Main, August 29, 2019

Mazars GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Jörg Maas
Auditor

Michael Schaub
Auditor

FINANCIAL CALENDAR

21/11/2019	Publication of the Q3 2019 interim report
25–27/11/2019	Analyst/investor conference as part of the Deutsches Eigenkapitalforum, Frankfurt am Main

All dates are subject to change. We publish all of the above dates together with additional dates and any updates to these on www.kap.de/en/investor-relations/calendar.

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. These statements are based on current estimates and forecasts by the Executive Board and on the information currently available to the Executive Board. Such statements are subject to risks and uncertainties that are mostly difficult to assess and are generally outside the scope of KAP AG's and its subsidiaries' control. These include the future market environment and economic conditions, the behaviour of other market participants, the successful integration of new acquisitions, the realisation of anticipated synergy effects and measures taken by government agencies. Should any of these or other uncertainties and imponderables materialise, or should the assumptions on which the statements made are based prove to be inaccurate, actual results could differ materially from those expressed or implied by such statements. KAP AG does not assume any special obligation going beyond the legal requirements to update forward-looking statements made in this report.

ROUNDING

The figures in this report have been rounded in accordance with established commercial practice. Rounding differences may thus occur, meaning that the result of adding the individual figures together may not always precisely correspond to the total specified.

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