# Half-year report 2021

1 January to 30 June 2021

# KEY FIGURES

**Selected key figures**

| | | H1 \| 2021 | H1 \| 2020 | Change in % |
|---|---|---|---|---|
| **Group** | | | | |
| Revenue[1] | € millions | 181.7 | 161.8 | 12.3 |
| Normalised EBITDA[1] | € millions | 21.7 | 17.6 | 23.3 |
| Normalised EBITDA margin[1] | % | 11.9 | 10.9 | 1.0 pp |
| Earnings for the period after taxes | € millions | 23.7 | –1.8 | n. m. |
| Earnings per share | € | 3.05 | –0.23 | n. m. |
| Investments | € millions | 15.5 | 9.9 | 56.6 |
| Depreciation, amortisation and impairments | € millions | 12.7 | 13.6 | –6.6 |
| Cash flow from operating activities | € millions | 0.6 | 22.1 | –97.3 |

| | | 30/06/2021 | 31/12/2020 | Change in % |
|---|---|---|---|---|
| Non-current assets | € millions | 200.8 | 185.2 | 8.4 |
| Current assets | € millions | 152.5 | 112.7 | 35.3 |
| Equity | € millions | 180.8 | 154.3 | 17.2 |
| Equity ratio | % | 50.0 | 49.3 | 0.7 pp |
| Non-current liabilities | € millions | 87.4 | 84.0 | 4.0 |
| Current liabilities | € millions | 93.6 | 69.9 | 34.2 |

| | | H1 \| 2021 | H1 \| 2020 | Change in % |
|---|---|---|---|---|
| Employees (30 June)[1] | | 2,374 | 2,619 | –9.4 |

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

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# LETTER TO OUR SHAREHOLDERS

## DEAR SHAREHOLDERS,

Our business development in the first half of 2021 was highly satisfactory. We continued to demonstrate the high resilience of our portfolio management. In a significantly improved but still very volatile market environment, we acted flexibly, and quickly advanced the KAP Group's strategic transformation with our Accelerate programme. For example, the KAP Group's continuing operations generated revenue of almost €182 million – a year-on-year increase of 12.3%. Normalised EBITDA actually improved by 23.3% to €21.7 million.

The automotive sector's increasing recovery and the significant growth in industrial production had a positive impact on all segments' operating business. This was evident in the significant revival in customer demand in our diverse target markets.

This growth would doubtless have been even higher without the global supply chain problems and supply bottlenecks that resulted from the Covid-19 crisis. At the same time, during the year it became increasingly difficult to pass the price increases on the procurement side on to customers due to longer-term price agreements.

Nevertheless, we systematically continued the Accelerate improvement initiatives planned for 2021 and thus significantly improved the operating results of all our continuing segments. We successfully completed the sale of the **it/services** segment with the divestiture of the MEHLER Engineering Service GmbH subsidiary with effect as of 1 January and the it-novum GmbH subsidiary as of 30 June 2021. This meant we were able to increase our financial leeway and sharpen the focus of our investments on manufacturing SMEs. In addition, we made two attractive acquisitions in the **flexible films** segment in the first quarter and thus expanded our competences in this high-growth area in a targeted way. The successful sale of our commercial property in Fulda, whose completion is planned for November 2021 at the latest, is in line with our overarching strategic objective. In addition, we invested more in the expansion and construction of production sites and in new equipment and machinery. We also extended our international sales initiatives. Overall, we made the KAP Group increasingly agile: for instance, new reporting and business intelligence systems, which improve our Group-wide risk management, were implemented in order, for example, to be able to respond more quickly to market changes.

Our business development in the first half of the year was better than we had expected, which is why we increased our forecast for the 2021 financial year at the end of August. We expect the KAP Group to achieve revenue of between €320 million and €350 million for the current financial year (previously: between €300 million and €330 million) and normalised EBITDA in a range from €32 million to €38 million (previously: €27 to 33 million).

You, our shareholders, should also benefit from this encouraging business performance and from the profits from the sale of the **it/services**. We will therefore propose to the Annual General Meeting convened for 30 September 2021 that an increased dividend for the 2020 financial year of €1.75 per share be paid (previously: €0.75 per share).

We stand by our existing corporate and portfolio strategies. Our overarching objective is to significantly and sustainably increase the profitability of the KAP Group by 2023. To this end, we have already significantly accelerated the transformation process in the Group. The KAP Group is now a focused, modern industrial holding company with a clear investment approach based on the entrepreneurially minded SME sector.

Together with our employees, we introduced an important culture change within the whole Group in the past half-year: We are significantly more agile, with a high level of autonomy at the relevant management levels. We will systematically continue on this path.

We would like to thank you, our shareholders, for your trust in our company. We will continue to report consistently and transparently on our business development and the important milestones from the Accelerate programme in the future. Our increased attention is currently on the supply bottlenecks shaping development in the second half of the year. Thanks to the improvement initiatives we have already implemented, however, we have sufficient financial flexibility to successfully master these challenges and drive the further development of the KAP Group.

Best regards,

E. Forberich

Eckehard Forberich
Spokesman of the Management Board

Marten Julius
CFO

# Group Interim Management Report

# GROUP INTERIM MANAGEMENT REPORT

## MACROECONOMIC ENVIRONMENT

The global economy increasingly recovered in the second quarter of 2021 despite the continuing impact of the pandemic. Despite high Covid-19 infection levels in the first few months of the year, new infections decreased significantly in the global population during the second quarter. Restrictions mainly affected the service sector in the first half of the year. Global trade and industrial production continued to grow vigorously until spring 2021. This upturn was dampened by after-effects of the Covid-19 pandemic, which led to global supply bottlenecks and supply chain problems. As a result, the prices for raw materials and intermediate goods (e.g. for semiconductors) and for transport services, and thus also consumer prices, increased sharply. In its most recent World Economic Outlook (WEO) from July, the International Monetary Fund (IMF) forecast year-on-year global economic growth of 6.0% for full year 2021. The forecast for 2021 remains unchanged from April 2021, but with offsetting revisions. Whereas the growth prospects for the richer industrial nations with high vaccination rates have improved since the last WEO forecast in April, the prospects for poorer developing countries and emerging markets have worsened. According to the IMF, the economic outlook for many countries now directly depends on their access to coronavirus vaccines. In addition to high vaccination rates, government support measures are also having a positive impact on the economy.

In Germany, gross domestic product increased by 9.2% in the second quarter adjusted for price inflation and calendar effects compared to the same quarter of the previous year and by 1.5% compared to the first quarter of the 2021 financial year (adjusted for price inflation and seasonal and calendar effects). The German economy's recovery in the second quarter is primarily due to the loosened infection control measures and increased private and government consumption expenditure. The ifo Business Climate Index was at 101.7 points in June and increased by 5.1 points compared with April 2021. In Germany too, bottlenecks in the supply of primary products and the associated increase in producer prices, which have curbed demand, are dampening the German economy's recovery. According to the ifo Institute, this has largely delayed the continuation of the industrial recovery to the second half of the year. The Bundesverband der Deutschen Industrie (BDI) expects significant growth in German economic output for the second half of the year. The IMF expects a 3.6% increase in economic output in Germany for full year 2021.

From a regional perspective, the progression of the global economic recovery is a very mixed picture. In the UK and Japan, gross domestic product recently decreased significantly according to the Institute for the World Economy (IfW). In the UK, in addition to the pandemic, Brexit also had a negative impact on the economy. China continued to grow vigorously in the second quarter, although the growth was significantly lower compared with the first quarter. The United States saw strong economic growth and has already made up for much of the slump. In Europe, the economy recovered quicker than expected overall and the IMF expects it to grow by 4.6% this year.

## DEVELOPMENT OF IMPORTANT CUSTOMER SECTORS

The KAP Group's segment companies operate in various market niches and mainly produce products and solutions for companies from the industrial sector. The data on current developments in these markets is only publicly available to a limited extent due to their particular nature. The general economic situation and the segment companies' most important customer industries – the automotive sector, industrial production and the construction sector – are key for the development of the segments and the segment companies. According to the BDI's calculations, production in the manufacturing sector in the second quarter of 2021 increased by 15.8% compared to the same period of the previous year when adjusted for calendar effects. The construction industry saw an increase of 1.9% and the production of consumer goods rose by 8.8%. The increase in intermediate goods was even larger (21.9%). The most significant growth was in capital goods, which increased by 22.1%.

The automotive sector recovered in the first half of the year following a significant decrease in demand due to the pandemic in the previous year. However, according to the German Association of the Automotive Industry (VDA), overall it still has some catching up to do compared with the pre-crisis level, in some cases still by a considerable amount. The continuing bottlenecks in semiconductors in particular and to some extent also in other raw materials, which are expected to persist into 2022, are currently preventing a more rapid market recovery. For example, although new registrations in the European passenger car market improved by 27% to 6.5 million units in the first half of 2021 compared with the historically low level of the previous year, this meant new registrations were around a quarter lower than in the same period of 2019. According to the VDA, new registrations increased by 15% in Germany, whereas in the USA light vehicle purchases (passenger cars and light trucks) increased by 29% to 8.3 million units. In China, purchases of new passenger cars in the first half of 2021 were 27% higher than the previous year's level at 9.8 million units. By contrast, the growth in new electric vehicles continues unabated according to the German Federal Motor Transport Authority (KBA). Overall, around 149,000 battery-powered vehicles were newly registered in Germany in the first half of 2021 according to the KBA, which is triple the previous year's level.

## BUSINESS PERFORMANCE OF THE KAP GROUP

The KAP Group reported good business performance in the first half of 2021. Overall, the general improvement in the economic environment compared with the previous year was the main contributing factor. All continuing segments improved their operating results compared with the same period of the previous year. The flexible films segment remained on a strong growth course and continued to benefit from the increase in customer demand, e.g. in the construction and swimming pool liner sectors. In the engineered products segment, the restructuring measures already put in place had a positive impact on profitability. For example, the segment was able to improve its result despite lower revenue due to the closure of two production sites as planned. The engineered products, precision components and surface technologies segments, which are strongly dependent on the automotive sector, reported a recovery in the first half of the year due to the rise in demand in the automotive sector, while supply bottlenecks for semiconductors are still depressing this positive performance. Overall, the consequences that arose from the Covid-19 pandemic in the reporting period are impacting the segments differently due to the KAP Group's high level of diversification.

It is particularly encouraging that the KAP Group was able to systematically continue its strategic and operational improvement initiatives as part of Accelerate more quickly than planned in the first six months. For example, the MEHLER Engineering Service and it-novum subsidiaries were sold and the associated sale of the it/services segment was successfully completed. In addition, the KAP Group invested to a greater degree in the expansion of existing production sites, such as the sites in Hessisch Lichtenau and Döbeln, and invested in the completely new production site in Alabama in the USA. In the flexible films segment, KAP acquired the Dutch company AerO Coated Fabrics B.V. and acquired the remaining shares in NOW Contec GmbH. KAP AG sold its commercial property in Fulda in March, thus increasing the Group's financial flexibility. Completion is still subject to various customary conditions and is planned by the end of November 2021 at the latest.

In accordance with IFRS 5, the subsidiaries sold in the it/services segment, i.e. MEHLER Engineering und Service GmbH and it-novum GmbH, are accounted for as discontinued operations in the consolidated financial statements. The it/services segment sold generated revenue of €7.3 million in the first half of 2021 (previous year: €8.5 million). The sale of the companies took effect during the first half of 2021 (January and June). It should therefore be taken into account that the previous year's figures and figures for the current financial year have been adjusted for the contributions to revenue and earnings of the segment sold for better comparability in the following analysis of the consolidated results.

# GROUP FINANCIAL PERFORMANCE

**KAP Group[1]**

| | | H1 \| 2021 | H1 \| 2020 | Change in % |
|---|---|---|---|---|
| Revenue | € millions | 181.7 | 161.8 | 12.3 |
| EBITDA | € millions | 19.8 | 18.3 | 8.2 |
| Normalisations | € millions | 1.9 | –0.7 | n. m. |
| Normalised EBITDA | € millions | 21.7 | 17.6 | 23.3 |
| Normalised EBITDA margin | % | 11.9 | 10.9 | 1.0 pp |
| Investments | € millions | 15.5 | 9.9 | 56.6 |
| Employees (30 June) | | 2,374 | 2,619 | –9.4 |

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

In the first half of 2021, the KAP Group generated revenue of €181.7 million, which represents an increase of 12.3% year on year (previous year: €161.8 million). This positive development reflects the general improvement in the economic industrial environment and particularly the start of the recovery of the automotive sector.

The cost of materials increased particularly due to increased raw material prices and production capacity utilisation, which again increased year on year, rising by around €15 million to €95.2 million. The cost of materials ratio increased by 1.0 percentage points to 52.4%. Personnel expenses in the first half of the year decreased to €44.9 million (previous year: €46.4 million), which was due not only to the increases in efficiency as part of the Accelerate programme but also to the reduction in headcount due, in part, to the plant closures decided in 2020. The proportion of personnel expenses in total performance reduced by 5.1 percentage points due to the aforementioned effects.

Other operating income in the first half of the year amounted to €10.0 million and was thus around 32% lower than in the previous year. The decrease is due to the significant fall in insurance compensation. Other operating expenses increased to €31.8 million (previous year: €25.7 million) and largely comprise increased freight and packaging costs as a result of increased revenue and also maintenance and repair costs.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to €19.8 million in the first half of the year and were adjusted for non-recurring effects and special items totalling €1.9 million. The normalisations primarily concerned transaction-related advice fees. Normalised EBITDA rose by 23.3% to €21.7 million (previous year: €17.6 million). The normalised EBITDA margin thus increased by 1.0 percentage points to 11.9% (previous year: 10.9%).

Depreciation and amortisation fell slightly to €12.7 million (previous year: €13.6 million).

The normalised operating result (EBIT) increased by €5.0 million compared with the same period of the previous year to €9.0 million (previous year: €4.0 million). Result before income taxes increased to €6.5 million (previous year: €1.0 million). Current tax expense was higher than the previous year's level at €2.5 million (previous year: €2.3 million). Gains/losses from discontinued operations amount to €19.6 million and primarily comprise the capital gains for the shares in the companies from the it/services segment. As a result, the consolidated first-half result improved significantly from €–1.8 million in the same period of the previous year to €23.7 million in the reporting period.

# SEGMENT DEVELOPMENT

## ENGINEERED PRODUCTS SEGMENT DEVELOPMENT

**engineered products**

| | | H1 \| 2021 | H1 \| 2020 | Change in % |
|---|---|---|---|---|
| Revenue | € millions | 60.0 | 67.0 | –10.4 |
| Normalised EBITDA | € millions | 5.0 | 4.5 | 11.1 |
| Normalised EBITDA margin | % | 8.3 | 6.7 | 1.6 pp |
| Investments | € millions | 1.8 | 0.5 | 260 |
| Employees (30 June) | | 669 | 893 | –25.0 |

The **engineered products** segment was impacted by the Covid-19 pandemic in the form of supply bottlenecks and supply chain problems regarding semiconductors for the automotive industry in the first half of the year. Revenue decreased by 10.4% to €60.0 million in the first six months of 2021 (previous year: €67.0 million). The significant decrease in revenue is, however, primarily a result of lower production capacity compared with the previous year. This fell as a result of the final closure of two production sites in Fulda and Jilemnice in the second half of the previous year as part of refocusing the segment on higher-value products.

The effectiveness of these restructuring measures can be seen in the improved normalised EBITDA of €5.0 million (previous year: €4.5 million). The normalised special items and non-recurring effects from the reporting period, which totalled €–0.3 million, particularly comprise gains from the disposal of assets. The normalised EBITDA margin increased by 1.6 percentage points to 8.3%.

In the reporting period, KAP AG systematically continued the sales initiatives launched as part of Accelerate. KAP AG is planning further measures, such as investment in new production facilities and machinery at the Hessisch Lichtenau site, for the second half of the year.

Investment increased significantly by around 260% to €1.8 million in the first half of the year (previous year: €0.5 million) and, in addition to the aforementioned site, also primarily comprises operational maintenance measures.

As of 30 June 2021, 669 people were employed in the segment (previous year: 893), which is 25.0% fewer than at the same reporting date of the previous year. The decrease is mainly due to the plant closures in Fulda and Jilemnice.

## FLEXIBLE FILMS SEGMENT DEVELOPMENT

**flexible films**

| | | H1 \| 2021 | H1 \| 2020 | Change in % |
|---|---|---|---|---|
| Revenue | € millions | 67.3 | 50.9 | 32.2 |
| EBITDA | € millions | 10.0 | 8.1 | 23.5 |
| EBITDA margin | % | 14.9 | 15.9 | –1.0 pp |
| Investments | € millions | 1.7 | 1.0 | 70.0 |
| Employees (30 June) | | 334 | 320 | 4.4 |

The **flexible films** segment continued its growth course in the first half of 2021 and benefited from the increase in unit sales of products in the swimming pool liners and construction sectors, which have been in particular demand during the coronavirus pandemic. The segment saw revenue growth of 32.2% to €67.3 million thanks to its strong market position (previous year: €50.9 million). The rise in revenues is also due to the acquisition of extrusion specialist AerO Coated Fabrics. During the reporting period, the segment was impacted by an increase in the prices of raw materials in PVC and plasticisers, which still persisted at the time this report was prepared and is a consequence of the Covid-19 pandemic. These price rises can only be passed on to customers with a time lag and therefore impact the margin in the current year.

EBITDA increased by 23.5% to €10.0 million in the first six months (previous year: €8.1 million), while the EBITDA margin fell by 1.0 percentage points to 14.9% due to increased prices of raw materials.

KAP AG launched efficiency increasing measures in the first six months as part of Accelerate and will continue these during the rest of the financial year. This includes the further professionalisation of purchasing and sales that has been introduced, the general optimisation of use of raw materials and the improvement of productivity and product quality. In addition, the segment is working on further expanding its international procurement and sales structures.

The segment companies invested €1.7 million during the reporting period, meaning that investment spending was significantly higher than the previous year (previous year: €1.0 million). The investments encompassed various measures for increasing efficiency.

The number of employees increased by 4.4% to 334 as of 30 June 2021 (previous year: 320).

## SURFACE TECHNOLOGIES SEGMENT DEVELOPMENT

**surface technologies**

| | | H1 \| 2021 | H1 \| 2020 | Change in % |
|---|---|---|---|---|
| Revenue | € millions | 30.7 | 25.2 | 21.8 |
| Normalised EBITDA | € millions | 5.8 | 3.4 | 70.6 |
| Normalised EBITDA margin | % | 18.9 | 13.5 | 5.4 pp |
| Investments | € millions | 9.0 | 6.4 | 40.6 |
| Employees (30 June) | | 752 | 746 | 0.8 |

In the **surface technologies** segment, revenue rose significantly by around 22% to €30.7 million following a sharp decrease in demand caused by the coronavirus pandemic in the automotive sector in the same period of the previous year (previous year: €25.2 million). The general recovery in the automotive sector in the first half of 2021 had a positive impact on the segment companies' business development. However, call-off reductions by major customers due to supply bottlenecks prevented an even more far-reaching recovery. A fire-related outage of the production site in the USA (Spartanburg) since the fourth quarter of 2020 also adversely impacted the segment's business development, but other sites ensured our customers were supplied at all times.

Due to the first half of 2020 being more strongly affected by the coronavirus pandemic, normalised EBITDA increased significantly year on year, rising by 70.6% to €5.8 million in the first half of 2021 (previous year: €3.4 million). The normalised EBITDA margin thus increased by 5.4 percentage points to 18.9% (previous year: 13.5%). Normalisations amounted to €−0.1 million. The significant increase in margin is the result of the increased revenue and the absence of some Covid-19 effects in the previous year.

As part of Accelerate, the construction of a new site in Alabama, USA, for the anchor customer Daimler had a high priority for KAP AG in the first half of the year. An investment volume in the high single-digit million range is budgeted for the construction. From today's perspective, KAP expects production to start up from the end of 2021, with a positive impact on the development of the segment's revenue and earnings from 2022.

The investment volume, which largely comprises the expenses for the new site in Alabama, was €9.0 million in the reporting period and has thus increased significantly compared with the previous year (previous year: €6.4 million).

As of 30 June 2021, 752 people were employed in the segment – a slight increase of 0.8% compared with the end of the same period of the previous year (previous year: 746).

## PRECISION COMPONENTS SEGMENT DEVELOPMENT

**precision components**

| | | H1 \| 2021 | H1 \| 2020 | Change in % |
|---|---|---|---|---|
| Revenue | € millions | 22.2 | 18.6 | 19.4 |
| Normalised EBITDA | € millions | 1.8 | 0.1 | > 100 |
| Normalised EBITDA margin | % | 8.1 | 0.5 | 7.6 pp |
| Investments | € millions | 3.0 | 1.8 | 66.6 |
| Employees (30 June) | | 573 | 593 | –3.4 |

The **precision components** segment achieved a rise in revenue of 19.4% to €22.2 million in the first half of the year (previous year: €18.6 million). The rise is largely due to the increasing recovery of the automotive sector in the first six months. The supply bottlenecks and supply-chain problems already described were also noticeable in this segment.

Normalised EBITDA increased to €1.8 million in the first half of 2021 (previous year: €0.1 million). The normalised EBITDA margin thus improved by 7.6 percentage points to 8.1% (previous year: 0.5%). The significant improvement proves the effectiveness of the efficiency increasing measures from the Accelerate programme already implemented. The normalisations amounted to €–0.1 million.

The expansion of the production site in Minavto in Belarus is expected to take place in 2022, which will result in it being possible to achieve very competitive offer prices for Western European and local customers. In addition, KAP AG launched sales offensives in e-bikes and special electromechanical drives, which will have an effect as early as the first quarter of next year.

Investments amounted to €3.0 million in the first half of the year (previous year: €1.8 million) and primarily consist of investments for a custom project at the Dresden site.

The number of employees decreased slightly to 573 as of 30 June 2021 following a decrease in headcount in the previous year necessitated by the Covid-19 pandemic (previous year: 593).

## CASH FLOWS

**Selected key indicators on cash flows**

| in € millions | H1 \| 2021[1] | H1 \| 2020 | Change in % |
|---|---|---|---|
| Cash flow from operating activities | 0.6 | 22.1 | –97.3 |
| Cash flow from investing activities | –28.2 | –9.8 | 187.8 |
| Cash flow from financing activities | 18.5 | 39.2 | –52.8 |
| Net change in cash and cash equivalents | –9.1 | 51.5 | –117.7 |
| Effect of changes in foreign exchange rates and consolidated group on cash and cash equivalents | 1.2 | –0.1 | > 100.0 |
| Cash and cash equivalents at end of period | 8.1 | 56.4 | –85.6 |

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

The cash flow from operating activities in the first six months of the 2021 financial year decreased significantly to €0.6 million (previous year: €22.1 million). The decrease resulted from increased inventories and supplies as a consequence of the rise in revenue and from purchase price receivables in connection with the sale of the it/services segment.

The cash flow from investing activities resulted in a cash outflow of €28.2 million (previous year: €9.8 million). This increase is largely due to investments in our new site in Alabama, USA, and to the acquisition of the AerO companies in the Netherlands.

Cash flow from financing activities in the first half of the year amounted to €18.5 million (previous year: €39.2 million). The high inflow again in this area resulted from the refinancing of our investments and increased working capital.

# FINANCIAL POSITION

The KAP Group's total assets totalled €361.9 million as of 30 June 2021 and were thus €48.8 million above the 31 December 2020 level of €313.1 million.

On the assets side, non-current assets increased by €15.6 million to €200.8 million (31/12/2020: €185.2 million). Intangible assets increased by €9.1 million to €36.9 million. The increase results largely from the acquisition of the AerO companies in the Netherlands. As a result of our investments, property, plant and equipment increased by €7.3 million to €157.2 million (31/12/2020: €149.9 million). Investment properties fell by €0.1 million to €1.9 million (31/12/2020: €2.0 million). Compared with 31 December 2020, deferred tax assets decreased by €0.8 million to €4.5 million (31/12/2020: €5.3 million).

Current assets rose by €39.8 million to €152.5 million (31/12/2020: €112.7 million). This development is primarily due to the €23.7 million increase in other receivables and assets to €33.5 million, which include the outstanding purchase price for the shares in the it-novum companies sold as of the reporting date (31/12/2020: €9.8 million). Trade receivables increased by €19.6 million to €62.9 million (31/12/2020: €43.3 million) and inventories increased by €4.5 million to €47.3 million (31/12/2020: €42.8 million). Cash and cash equivalents fell by €7.6 million to €8.1 million (31/12/2020: €15.7 million).

Working capital increased by €15.7 million to €83.0 million (previous year: €67.3 million). The expansion of working capital is in line with the sharp increase in the KAP Group's operating performance in the first half of the year.

On the liabilities and equity side, equity increased by €26.5 million to €180.8 million (31/12/2020: €154.3 million). The increase results largely from the current net profit for the year. Non-current liabilities increased by €3.4 million to €87.4 million (31/12/2020: €84.0 million). Non-current financial liabilities increased by €3.9 million to €62.9 million (31/12/2020: €59.0 million).

Current liabilities increased significantly by €23.7 million to €93.6 million (31/12/2020: €69.9 million). This is largely due to the €17.5 million increase in current financial liabilities to €29.0 million (31/12/2020: €11.5 million) and higher trade payables of €27.1 million (31/12/2020: €18.9 million). Current financial liabilities increased in particular due to the significant increase in our working capital. Other provisions decreased by €1.7 million to €25.4 million (€27.1 million) and other liabilities amounted to €8.5 million (31/12/2020: €7.4 million).

# OPPORTUNITIES AND RISKS

A description of the major risks and opportunities and the principles of the KAP Group risk management system can be found in the Group management report in the published 2020 Annual Report from page 62 onwards. The risks specified there concerning the development of materials management in some cases materialised due to the global after-effects of the Covid-19 pandemic and led to an increase in purchase prices for raw materials, supplies and merchandise, such as PVC. We pass the increases in the prices of raw materials on to our customers within the limits of the contractual possibilities. In some cases, however, they can only be passed on with a time lag. The statements made in the 2020 Annual Report regarding the rest of the risk and opportunity situation largely still apply.

There continue to be risks from a possible worsening in the course of the Covid-19 pandemic or further after-effects on global trade and worldwide supply chains in connection with this, particularly in the event of a further massive global wave of infection that could again lead to far-reaching lockdown measures or call-off reductions by our customers. Such risks could have an adverse effect on the KAP Group's business development if they materialise.

At the current time, the future course the Covid-19 pandemic will take in the sales and procurement markets important for KAP cannot yet be foreseen. The associated volatility of financial markets cannot currently be reliably assessed either, meaning that KAP presently anticipates higher financial risks. Taking account of all the facts known, no individual risks that endanger the continuation of the KAP Group as a going concern are currently identifiable. This also applies to the overall view of all risks.

# EVENTS AFTER REPORTING PERIOD

On 10 August 2021, the Management Board and Supervisory Board decided to propose an increased dividend for the 2020 financial year of €1.75 per no-par-value share eligible for dividends to the Annual General Meeting to be convened for 30 September 2021 (previous planned dividend proposal: €0.75). Subject to the approval of the shareholders at the Annual General Meeting, a total amount of €13,593,235.25 would thus be distributed to shareholders. The new dividend proposal means shareholders are to substantially participate in the good current business and earnings performance and the proceeds from the sale of it-novum GmbH.

Aside from this, no other 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

The positive business development in the first half of 2021 was above expectations. KAP AG therefore raised its forecast for the 2021 financial year at the end of August. The Management Board expects consolidated revenue of between €320 million and €350 million for the current financial year (previously: between €300 million and €330 million) and normalised EBITDA in a range from €32 million to €38 million (previously: €27 to 33 million).

In particular, this positive development was caused by the recovery occurring faster than expected in our target markets, incoming orders significantly above expectations in the flexible films segment and faster than planned implementation and effectiveness of measures as part of the Accelerate programme.

The forecast already takes account of the sale of the it/services segment and is based on the assumption that the recovery of the target markets will continue unchanged, there will be no additional negative effects on the prices of raw materials and on supply chains, e.g. for semiconductors, and more severe restrictions as a result of the coronavirus pandemic will not be put in place in the course of the financial year.

# Development of the KAP Group in H1 2021

# CONSOLIDATED STATEMENT OF INCOME

## FROM 1 JANUARY TO 30 JUNE 2021

| in € thousands | 2021 | 2020 |
|---|---|---|
| **Revenue** | **181,732** | **161,785** |
| Change in inventories and other own work capitalised | –72 | –5,960 |
| **Total performance** | **181,660** | **155,825** |
| Other operating income | 10,037 | 14,722 |
| Cost of materials | –95,189 | –80,113 |
| Personnel expenses | –44,872 | –46,447 |
| Amortisation and impairment of intangible assets and depreciation and impairment of property, plant and equipment and investment property | –12,726 | –13,611 |
| Other operating expenses | –31,785 | –25,730 |
| **Operating result** | **7,125** | **4,646** |
| Interest result | –1,259 | –1,603 |
| Other financial result | 629 | –2,017 |
| **Financial result** | **–630** | **–3,620** |
| **Earnings from continuing operations before income taxes** | **6,495** | **1,026** |
| Income taxes | –2,446 | –2,275 |
| **Earnings from continuing operations** | **4,049** | **–1,249** |
| Earnings from discontinued operations after taxes | 19,631 | –509 |
| **Earnings after taxes** | **23,680** | **–1,758** |
| Result share of non-controlling interests | 135 | –345 |
| **Earnings attributable to shareholders of KAP AG** | **23,815** | **–2,103** |
| | | |
| **Undiluted earnings per share (€)** | | |
| Earnings from continuing operations | 0.52 | –0.17 |
| Gains/losses from discontinued operations | 2.53 | –0.06 |
| | **3.05** | **–0.23** |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS

## FROM 1 JANUARY TO 30 JUNE 2021

| in € thousands | 2021 | 2020 |
|---|---|---|
| **Consolidated result after taxes** | **23,680** | **–1,759** |
| Unrealised gains/losses from currency translation | 2,504 | –2,747 |
| Unrealised gains/losses from financial assets available for sale | 0 | 0 |
| **Items which may be reclassified in the income statement in the future** | **2,504** | **–2,747** |
| Actuarial gains from defined-benefit pension plans | 0 | 0 |
| Deferred taxes on actuarial gains/losses from defined-benefit pension plans | 0 | 0 |
| **Items which will not be reclassified in the income statement in the future** | **0** | **0** |
| **Other comprehensive income after taxes** | **2,504** | **–2,747** |
| thereof other comprehensive income after taxes attributable to non-controlling interests | 0 | 0 |
| thereof other comprehensive income after taxes attributable to shareholders of KAP AG | 2,504 | –2,747 |
| **Total comprehensive income** | **26,184** | **–4,506** |
| thereof attributable to non-controlling interests attributable to total comprehensive income | –135 | 345 |
| thereof attributable to shareholders of KAP AG | 26,319 | –4,851 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## FOR THE PERIOD ENDED 30 JUNE 2021

| in € thousands | 30/06/2021 | 31/12/2020 |
|---|---|---|
| **ASSETS** | | |
| **ASSETS** | | |
| **Non-current assets** | | |
| Intangible assets | 36,911 | 27,840 |
| Property, plant and equipment | 157,198 | 149,893 |
| Investment properties | 1,922 | 1,961 |
| Other financial assets | 211 | 231 |
| Deferred tax assets | 4,520 | 5,310 |
| | **200,762** | **185,235** |
| **Current assets** | | |
| Inventories | 47,317 | 42,822 |
| Trade receivables | 62,872 | 43,347 |
| Income tax receivables | 1,171 | 1,051 |
| Other receivables and assets | 33,055 | 9,768 |
| Cash and cash equivalents | 8,084 | 15,694 |
| | **152,499** | **112,682** |
| **Non-current assets held for sale and discontinued operations** | **8,650** | **15,153** |
| | **361,911** | **313,070** |

| in € thousands | 30/06/2021 | 31/12/2020 |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| **EQUITY AND LIABILITIES** | | |
| **Equity and reserves** | | |
| Subscribed capital | 20,196 | 20,177 |
| Capital reserve | 86,921 | 86,840 |
| Reserves | –19,047 | –20,431 |
| Net result | 89,261 | 65,446 |
| **Equity attributable to shareholders of KAP AG** | **177,331** | **152,032** |
| Non-controlling interests | 3,502 | 2,296 |
| | **180,833** | **154,328** |
| **Non-current liabilities** | | |
| Provisions for pensions and similar obligations | 17,930 | 18,280 |
| Non-current financial liabilities | 62,904 | 59,044 |
| Deferred tax liabilities | 6,595 | 6,643 |
| | **87,429** | **83,967** |
| **Current liabilities** | | |
| Other provisions | 25,378 | 27,100 |
| Current financial liabilities | 28,998 | 11,504 |
| Trade payables | 27,147 | 18,858 |
| Income tax liabilities | 3,604 | 4,961 |
| Other liabilities | 8,522 | 7,456 |
| | **93,649** | **69,879** |
| **Liabilities in connection with discontinued operations** | **0** | **4,896** |
| | **361,911** | **313,070** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE PERIOD ENDED 30 JUNE 2020

| in € thousands | Subscribed capital | Capital reserve | Currency differences |
|---|---|---|---|
| **01/01/2020** | **20,177** | **86,840** | **–19,740** |
| **Consolidated result** | **–** | **–** | **–** |
| Other comprehensive income before taxes | – | – | –2,746 |
| Deferred taxes on other comprehensive income | – | – | – |
| **Total comprehensive income** | **–** | **–** | **–2,746** |
| **Inflation adjustment in accordance with IAS 29** | **–** | **–** | **–** |
| Capital increase | – | – | – |
| Capital decrease | – | – | – |
| Dividends paid to shareholders | – | – | – |
| Change in consolidation group | – | – | – |
| Other changes | – | – | – |
| **30/06/2020** | **20,177** | **86,840** | **–22,486** |
| | | | |
| **01/01/2021** | **20,177** | **86,840** | **–23,821** |
| **Consolidated result** | **–** | **–** | **–** |
| Other comprehensive income before taxes | – | – | 2,504 |
| Deferred taxes on other comprehensive income | – | – | – |
| **Total comprehensive income** | **–** | **–** | **2,504** |
| Inflation adjustment in accordance with IAS 29 | – | – | – |
| Capital increase | 19 | 81 | – |
| Capital decrease | – | – | – |
| Dividends paid to shareholders | – | – | – |
| Change in consolidation group | – | – | – |
| Withdrawals | – | – | – |
| Other changes | – | – | – |
| **30/06/2021** | **20,196** | **86,921** | **–21,317** |

| | Revenue reserves | | | | | | |
|---|---|---|---|---|---|---|---|
| | Actuarial gains/losses | Other | Total | Net result | Equity attributable to KAP sharholders | Non-controlling interests | Total equity |
| | **–7,073** | **10,372** | **–16,441** | **68,413** | **158,989** | **2,017** | **161,006** |
| | **–** | **–** | **–** | **–2,103** | **–2,103** | **345** | **–1,758** |
| | – | – | –2,746 | – | –2,746 | – | –2,746 |
| | – | – | – | – | – | – | – |
| | **–** | **–** | **–2,746** | **–2,103** | **–4,849** | **345** | **–4,504** |
| | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | **–7,073** | **10,372** | **–19,187** | **66,310** | **154,140** | **2,362** | **156,502** |
| | | | | | | | |
| | **–6,982** | **10,372** | **–20,431** | **65,446** | **152,032** | **2,296** | **154,328** |
| | **–** | **–** | **–** | **23,815** | **23,815** | **–135** | **23,680** |
| | – | – | 2,504 | – | 2,504 | – | 2,504 |
| | – | – | – | – | – | – | – |
| | **–** | **–** | **2,504** | **23,815** | **26,319** | **–135** | **26,184** |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | 100 |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | 251 | – | 251 | – | 251 | 2,364 | 2,615 |
| | – | –1,278 | –1,278 | – | –1,278 | –1,022 | –2,300 |
| | – | –93 | –93 | – | –93 | –1 | –94 |
| | **–6,731** | **9,001** | **–19,047** | **89,261** | **177,331** | **3,502** | **180,833** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FROM 1 JANUARY TO 30 JUNE 2020

| in € thousands | 2021 | 2020 |
|---|---|---|
| **Consolidated result after taxes** | **23,680** | **–1,758** |
| Interest result | 1,260 | 1,604 |
| Income taxes | 2,539 | 2,293 |
| **Earnings before interest and income taxes** | **27,479** | **2,139** |
| Depreciation and amortisation of non-current assets (offset against write-ups) | 12,832 | 14,122 |
| Change in provisions | –2,072 | 6,216 |
| Other non-cash expenses and income | –97 | 655 |
| Gains/losses from the disposal of non-current assets | –737 | –190 |
| **Cash flow from operating activities before changes in assets and liabilities** | **37,405** | **22,942** |
| Changes in inventories, receivables and other assets not attributable to investing and financing activities | –40,548 | –1,750 |
| Changes in payables and other liabilities which are not attributable to investing and financing activities | 9,113 | 4,059 |
| **Cash flow from operating activities before interest and income taxes** | **5,970** | **25,251** |
| Interest paid and received | –1,260 | –1,312 |
| Income taxes paid and received | –4,085 | –1,846 |
| **Cash flow from operating activities** | **625** | **22,093** |
| Proceeds from disposals of property, plant and equipment (including investment property) | 737 | 491 |
| Investments in property, plant and equipment (including investment property) | –16,784 | –9,954 |
| Investments in intangible assets | –3,780 | – |
| Proceeds from the disposal of financial assets | – | –335 |
| Investments in financial assets | – | 13 |
| Cash outflow from the addition of consolidated companies | –8,383 | – |
| Cash inflow from repayments of financial receivables | 20 | – |
| Disbursements by granting loans | – | –1 |
| **Cash flow from investing activities** | **–28,190** | **–9,786** |
| Proceeds from capital increase | 100 | – |
| Acquisition of minority interest in NOW | –2,300 | – |
| Cash inflow from financial liabilities | 26,124 | 42,988 |
| Disbursements for the repayment of financial liabilities | –5,440 | –3,780 |
| **Cash flow from financing activities** | **18,484** | **39,208** |
| Net change in cash and cash equivalents | –9,081 | 51,515 |
| Effect of changes in foreign exchange rates, consolidation group and valuation-related changes in cash and cash equivalents | 1,201 | –143 |
| Cash and cash equivalents at beginning of period | 15,964 | 5,077 |
| **Cash and cash equivalents at end of period** | **8,084** | **56,449** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL REMARKS

The KAP AG interim financial statements for the period ended 30 June 2021 have been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable in the 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 and the statement of changes in consolidated equity and on segment reporting, insofar as they are of particular significance.

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

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

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

## 2. CONSOLIDATED GROUP

The KAP AG interim financial statements for the period ended 30 June 2021 include all major domestic and foreign subsidiaries that are under the legal and/or actual control of KAP AG.

In addition to KAP AG, the consolidated group includes 26 German and 20 foreign companies (previous year: 31 German and 19 foreign companies).

On 17 February 2021, with retroactive effect as of 1 January 2021, 78% of the shares in AerO Holding B.V., Tilburg, the Netherlands, were acquired. AerO Holding B.V. in turn holds all the shares in AerO Coated Fabrics B.V., Tilburg, the Netherlands. AerO Coated Fabrics B.V. is a highly specialised extrusion company and manufacturer of thermoplastic composite materials.

The acquired assets and liabilities of both companies were as follows as of the acquisition date of 1 January 2021:

| in € thousands | Carrying amounts before purchase price allocation | Adjustment | Preliminary purchase price allocation |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 0 | 3,247 | 3,247 |
| Property, plant and equipment | 1,599 | – | 1,599 |
| Deferred tax assets | 0 | – | 0 |
| | **1,599** | **3,247** | **4,846** |
| **Current assets** | | | |
| Inventories | 351 | – | 351 |
| Trade receivables | 327 | – | 327 |
| Other receivables and assets | 46 | – | 46 |
| Cash and cash equivalents | 1,201 | – | 1,201 |
| | **1,925** | **–** | **1,925** |
| **Assets** | **3,524** | **3,247** | **6,771** |
| | | | |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 0 | 812 | 812 |
| Financial liabilities | 487 | – | 487 |
| Pension obligations | 0 | – | 0 |
| | **487** | **812** | **1,299** |
| **Current liabilities** | | | |
| Other provisions | 45 | – | 45 |
| Current financial liabilities | 183 | – | 183 |
| Trade payables | 310 | – | 310 |
| Current income taxes | 0 | – | 0 |
| Other liabilities | 310 | – | 310 |
| | **848** | **–** | **848** |
| **Liabilities** | **1,335** | **812** | **2,147** |
| **Net assets** | **2,189** | **2,435** | **4,624** |
| Goodwill | – | – | 6,123 |
| Minority interests' share | – | – | –2,364 |
| **Purchase price of shares** | **–** | **–** | **8,383** |

The preliminary purchase price allocation of assets and liabilities resulted in non-tax-deductible goodwill of €6,123 thousand under the full goodwill method. The goodwill was allocated to the flexible films segment. It represents non-separable assets such as employees' know-how, positive earnings expectations for the future and synergies from development, sales and marketing. In the first half of 2021, the AerO Group generated revenue of €2,641 thousand and a net profit for the year of €302 thousand.

The fair value of the consideration transferred is €8,383 thousand. The purchase price was paid in full in cash. The value of the non-controlling interests at the date of acquisition was €2,364 thousand.

The disposals concern the sale of the companies in the it/services segment and internal mergers.

Deconsolidation proceeds from subsidiaries are disclosed under result from divested assets and liabilities. Discontinued operations are recognised 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 from 1 January 2004. The acquired assets and liabilities of fully consolidated companies are recognised at their fair value.

Any positive difference remaining following the purchase price allocation is recognised as goodwill. All goodwill is regularly tested for impairment after allocation to a cash-generating unit.

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

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

Shares in the capital and the result of fully consolidated subsidiaries that are not attributable to the parent company are reported as non-controlling interests within equity.

Changes in the parent company's ownership interest in subsidiaries that do not result in the loss or acquisition of control are accounted for as equity transactions.

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

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

## 4. CURRENCY TRANSLATION

Foreign currency receivables and liabilities recognised in the separate financial statements are initially recognised at their purchase price. Exchange rate gains and losses arising on the reporting date as a result of changes in exchange rates are recorded through profit or loss in profit or loss for the period.

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

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

Translation differences resulting from varying currency exchange rates in the statement of financial position and statement of income are recognised directly in equity.

In the case of consolidated companies that are not wholly owned by KAP AG, the differences resulting from currency translation, if attributable to non-controlling interests, are reported separately under non-controlling interests.

Currency translation differences from the consolidation of liabilities are generally recognised through profit and loss.

The following exchange rates were used:

| €1 = | Annual average exchange rate 2021 | 2020 | Average exchange rate on reporting date 30/06/2021 | 31/12/2020 | 30/06/2020 |
|---|---|---|---|---|---|
| Belarusian rouble | 3.0927 | 2.5813 | 3.0102 | 2.3686 | 2.7140 |
| Chinese yuan | 7.7874 | 7.7439 | 7.6808 | 7.8328 | 7.9357 |
| Indian rupee | 88.2635 | 81.6964 | 88.3839 | 80.1500 | 84.7210 |
| Polish zloty | 4.5385 | 4.4142 | 4.5185 | 4.2597 | 4.4620 |
| Swedish krona | 10.1346 | 10.6619 | 10.1165 | 10.4445 | 10.5018 |
| Swiss franc | 1.0858 | 1.0641 | 1.0972 | 1.0856 | 1.0656 |
| South African rand | 17.4265 | 18.3436 | 17.0202 | 15.7645 | 19.4414 |
| Czech koruna | 25.8215 | 26.3483 | 25.4840 | 25.4070 | 26.7990 |
| Turkish lira | 9.5760 | 7.1565 | 10.3192 | 6.6803 | 7.6827 |
| Hungarian forint | 357.6175 | 345.3710 | 351.6100 | 330.6100 | 356.2800 |
| US dollar | 1.2041 | 1.1020 | 1.1890 | 1.1228 | 1.1210 |

## 5. ACCOUNTING AND VALUATION PRINCIPLES

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

### Fair value

In the International Financial Reporting Standards, IFRS 13 Fair Value Measurement regulates measurement at fair value, including the necessary disclosures, largely uniformly. The fair value is the value that would be achieved by the sale of an asset or the price that would have to be paid to transfer a debt. The IFRS 13 three-level fair value hierarchy is applied. Financial assets and liabilities are allocated to hierarchy level 1 if a quoted market price for assets and liabilities in an active market is available. Allocation to hierarchy level 2 occurs if a valuation model is applied or the price is derived from similar transactions. Financial assets and liabilities are recognised in hierarchy level 3 if the fair value is determined from unobservable parameters. When measuring assets and liabilities, the risk of default is also taken into account.

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

Purchased intangible assets are initially recognised at cost. This includes not only the purchase price but any costs directly attributable to bringing the asset to a condition necessary for it to be capable of operating.

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

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

Following initial recognition, intangible assets are reported under the cost model at cost less amortisation and impairment losses.

The amortisation is recognised on a straight-line basis over a period of three to nine years.

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

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

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

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

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

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

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

**Borrowing costs**

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

**Leasing**

For each lease, the KAP Group as a lessee generally recognises a right-of-use asset and corresponding lease liability. In doing so, it exercises the option to measure the right-of-use asset at the amount of 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 recognised as expenses. Leasing and non-leasing components are also combined when recognising leases.

Right-of-use assets resulting from leases are measured at cost upon initial recognition. The cost comprises 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 right-of-use assets are recognised at amortised cost less accumulated depreciation and impairment losses. The lease term is generally used as a basis for determining the depreciation. This does not apply if ownership of the leased asset is transferred to the KAP Group as the lessee through the Group exercising its purchase option or as a result of a contractual agreement. In this case, the economic life of the asset is used as basis for determining the depreciation.

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

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

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

**Government grants**

Government grants are not recognised until there is reasonable assurance that the applicant company will comply with the conditions and the grants will be actually received. Grants are allocated as income on a systematic basis over the period in which the related costs are to be compensated.

Grants for assets are deducted from the carrying amount of the asset concerned.

**Investment properties**

Land and buildings not required for operations are classified as investment properties and initially recognised at cost. They are only recognised if it is likely that the future economic benefits associated with the asset will flow to the entity and that the cost of the asset can be reliably determined.

Investment properties are reported under the cost model at cost less depreciation and accumulated impairment losses. The depreciation is recognised on a straight-line basis over a period of seven to 50 years.

**Impairment of non-current non-financial assets**

For intangible assets with a specific useful life, property, plant and equipment and investment properties, an assessment is made at the end of each reporting period of whether there are any indications assets may be impaired. If any such indications exist, the recoverable amount of each individual asset will be estimated unless an asset generates cash inflow that is not largely independent of other assets or other groups of assets (cash-generating units).

Goodwill acquired through business combinations is attributed to the cash-generating unit that derives benefit from the acquisition. Cash-generating units are defined as the groups of companies that operate economically independently of each other within the segments. The allocation is made no later than in the period following the acquisition date.

Goodwill or other intangible assets with indefinite useful lives are tested for impairment annually as of each reporting date – and whenever there are indications 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 recognised immediately in the profit or loss for the period. For assets with finite useful lives, the depreciation or amortisation amounts for future periods are adjusted accordingly. If there is any indication that an impairment loss recognised for an asset other than goodwill in earlier reporting periods no longer exists or no longer exists in full, the recoverable amount of this asset must be reassessed. The difference resulting from the change of assessment is recognised directly in profit or loss for the period as a reversal of the impairment loss. A reversal of an impairment loss to the recoverable amount to be determined is limited to the carrying amount that would have arisen if the cost had been amortised. The depreciation or amortisation amounts of future periods are adjusted accordingly.

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

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

**Deferred taxes**
Deferred taxes are recognised in respect of temporary valuation differences. The calculation is based on the concept of the statement-of-financial-position-oriented liability method, which encompasses all accounting differences or valuation differences recognised through profit and loss or directly in equity if these lead to an increase or decrease in the tax burden in future.

Deferred taxes on tax loss carry-forwards are capitalised if it is sufficiently likely that sufficient taxable income will be available in future to be able to use these loss carry-forwards.

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

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

### Inventories
Inventories are measured at the lower of cost and net realisable value.

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

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

Inventory risks with respect to storage time and recoverability leading to a net realisable value lower than cost are taken into account with appropriate write-downs. If the reasons for an impairment loss that occurred in previous periods no longer apply, the impairment loss is reversed up to the revised net realisable value.

### Other financial receivables and assets
Unless they are derivative financial instruments, other receivables and assets are classified as financial assets measured at amortised cost. On initial recognition on the settlement date, they are recognised at cost, taking account of directly attributable transaction costs. On the reporting date, the measurement is carried out at amortised cost. Appropriate loss allowances are made based on the expected credit losses over the term. Uncollectible receivables are recognised as bad debts. Interest-free or low-interest receivables due in more than one year are recognised at their present value.

If an impairment loss that was recognised in previous reporting periods has decreased in the past financial year due to circumstances that have arisen in the meantime, the original impairment is adjusted through profit or loss, but at most until the carrying amount corresponds to the amortised cost that would have resulted without impairment.

### Income tax receivables and income tax liabilities
Current income taxes for current and earlier periods are recognised as liabilities at the amount still payable. If the advance payments exceed the amount owed, the difference is recognised as a tax asset.

**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 will be realised predominantly through sale transactions and not through continued use.

These non-current assets and/or disposal groups are recognised on the reporting date at the lower of carrying amount and fair value less disposal costs. They are reported separately from other assets in the statement of financial position. 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 assessments at the end of each financial year. The obligations are calculated using the projected unit credit method. In addition to the pension entitlements already earned in previous periods, certain trend assumptions are taken into account in the calculation.

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

Qualifying insurance policies are treated as plan assets and measured at fair value on the reporting date. The value of plan assets reduces the present value of the defined benefit obligations. The plan assets are reported net in the statement of financial position, up to a maximum of the present value of the obligations.

The expenses from the compounding of interest on pension provisions and the income from the plan assets are netted and recognised in the financial result.

**Other provisions**
Other provisions comprise all present obligations to third parties as a result of past events where a claim is probable and where their expected amount can be estimated with a sufficient degree of certainty.

They are measured at the settlement amount with the highest probability of occurrence, taking future cost increases into account.

Provisions are only made for restructuring measures if there is a constructive obligation to restructure. This requires the existence of a formal restructuring plan specifying the business area concerned, the most important locations, the number of employees concerned, the costs and the date of implementation, and requires that a justified expectation that the measure will be implemented has been created among those affected through the start of implementation or announcement to those affected.

**Share-based remuneration**

A share-based payment component has been agreed with the Management Board. The share-based payment consists of the issue of shares as part of the annual bonus and the award of virtual shares. The share-based payment is accounted for in accordance with the provisions of IFRS 2. From KAP AG's point of view, only a cash settlement obligation exists in connection with the share-based payment, which is why under IFRS 2.42 the payment is accounted for in accordance with the requirements applying to cash-settled share-based payment transactions. A provision proportionate to the amount of the fair value of the payment obligation is recognised on the respective reporting date and any changes in the fair value are recognised through profit and loss. The fair value is determined using an accepted valuation methodology.

**Financial liabilities**

Financial liabilities are classified as measured at amortised cost. Directly attributable transaction costs are recognised immediately as expenses in profit or loss for the period. On the reporting date, the measurement is carried out at amortised cost using the effective interest method.

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

**Revenue recognition**

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

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

The period between the payment by the customer and the transfer of goods or services to the customer is one year or less. For this reason, no financing component is included in the transaction price. If a contract comprises several distinct performance obligations, the transaction price is allocated between the individual performance obligations on the basis of the standalone selling prices. As a rule, goods and services are sold at standalone selling prices. Revenue from customer contracts is recognised at a point in time or over time. If the performance of the service and the receipt of the payment from a customer do not fall on the same date, contract assets or liabilities may arise.

The conclusion of a new contract with customers may result in contract acquisition costs. Since the term of contracts for which the contract acquisition costs are incurred and the corresponding payback period for these costs is one year or less, contract 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 because control is transferred to the customer at this point in time. The right to payment exists at the time of delivery.

Bill-and-hold agreements are not generally concluded. If a bill-and-hold agreement is concluded at the express request of the customer, revenue is recognised at the time of completion because control is transferred to the customer even without physical delivery of the goods. In the case of a bill-and-hold agreement, the goods will be identified separately as those of the customer and may not be used elsewhere.

In a consignment contract, control of the goods transfers to the customer when the goods are removed from the consignment warehouse because the customer cannot obtain benefit from use of the goods before this point in time. Revenue is recognised at this time.

Revenue from the provision of services: revenue from the rendering of services is recognised over the period in which the services are provided (on a straight-line basis or in accordance with the stage of completion). Generally, the period of service provision is one week or less. The right to payment arises after the provision of a service when an invoice is issued. In the case of long-term orders, invoices are usually issued to the customer on a monthly basis. The Group uses output-oriented methods for revenue recognition. In the case of advance payments, contractual liabilities are formed.

Warranties: in connection with the sale of its goods/services, the Group is subject only to statutory or customary warranty obligations.

**Earnings per share**

Earnings per share are calculated by dividing the 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 outstanding in the reporting period.

**Estimates**

As part of the preparation of the consolidated financial statements, estimates must be made for various items that can affect the recognition and measurement of assets, liabilities, expenses, income and contingent liabilities. The actual valuations may deviate from the estimated amounts. The valuations are adjusted in the period in which the original estimate is changed. Any resulting expenses or income are recognised through profit or loss in the relevant reporting period. Assumptions and estimates must primarily be made when determining the useful lives of non-current assets, when conducting impairment tests and purchase price allocations and when recognising provisions for pensions, taxes and risks from business operations.

## 6. NEW ACCOUNTING STANDARDS

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

In accordance with the Management Board and Supervisory Board's decision to sell the land and buildings at the Fulda site, the associated assets were reclassified in the previous year. It was possible to complete the negotiations on the sale in February 2021 with the sale of the majority of said land and the buildings to an investor. The areas used by KAP AG and its subsidiaries have been leased back on the basis of long-term leases. The execution of the contract is subject to customary conditions and is planned by the end of November 2021 at the latest. The gross sale proceeds amounted to €37.4 million. Of these gross sale proceeds, €7.0 million is subject to the condition precedent that a tenant not belonging to the KAP Group extends its existing lease with MEHLER AG. The sale of the parts of the land and buildings not sold with this contract is likewise planned for by the end of 2021 or in 2022.

As of 30 June 2021, land and buildings in the amount of €7,988 thousand was reported as non-current assets held for sale. No liabilities are directly attributable to said land and buildings.

In 2020, the Management Board and Supervisory Board decided to sell the **it/services** segment. The energy supply business of MEHLER Engineering und Service GmbH was then extracted from the it/services segment and sold outside the segment to Mehler Grundstücksverwaltungs GmbH. With the notarial contract of 17 December 2020, MEHLER AG consequently sold all the shares in MEHLER Engineering und Service GmbH. The sale became legally effective as of 1 January 2021. With the notarial contract of 29 June 2021, MEHLER AG also sold all the shares in the it-novum Group. The sale became legally effective as of 30 June 2021. This segment is therefore classified as held for sale. The current figures and the prior year figures of the consolidated statement of comprehensive income were restated accordingly in order to present the discontinued operation separately from the continuing operations. Internal transactions were fully eliminated from the consolidated financial results in accordance with IFRS 10. Consequently, only external revenues and expenses are shown under gains/losses from discontinued operations.

Gains/losses from the discontinued it/services segment:

| in € thousands | 2021 | 2020 |
|---|---|---|
| Revenue | 7,336 | 8,548 |
| Expenses including taxes | –5,877 | –9,051 |
| Current earnings after taxes | 991 | –503 |
| Gains/losses from the sale of the it/services segment | 18,236 | 0 |
| Total comprehensive income | 19,227 | –503 |

In addition to gains/losses from the it/services segment, gains/losses from discontinued operations also includes income from released liability obligations of €404 thousand (previous year: €–6 thousand). This income is connected with the MVS Group, which was sold in 2014. The KAP Group made a commitment to the acquirer for any risks arising from warranties and price audits for revenue up to the date of the disposal of the shares. The obligations are decreasing over time.

## 8. EQUITY

The subscribed capital amounts to €20,195,663.80 (previous year: €20,176,917.80) and is divided into 7,767,563 (previous year: 7,760,353) no-par-value bearer shares.

## 9. EVENTS AFTER THE BALLANCE SHEET DATE

There were no significant events after the balance sheet date to report up to 17 September 2021 (the date of approval for publication by the Management Board).

## 10. CONSOLIDATED STATEMENT OF CASH FLOWS

The statement of cash flows separately shows cash flows from operating activities, from investing activities and from financing activities. The effect of changes in foreign exchange rates, consolidation group and valuation-related changes in cash and cash equivalents is generally eliminated and reported separately.

Cash and cash equivalents comprise the cash and cash equivalents reported on the reporting date. The cash flow from operating activities is determined using the indirect method. The direct method is used for the presentation of cash flows from investing activities and financing activities.

## 11. SEGMENT REPORTING

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

For reasons of transparency, a distinction is made between the engineered products, flexible films, it/services, precision components and surface technologies segments in the KAP Group. In the 2020 financial year, the Management Board and Supervisory Board of KAP AG decided to sell the it/services segment. Since then, the segment has been reported as a discontinued operation.

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

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

The segment EBITDA corresponds to the EBITDA of the Group at Group level.

## 12. CONTINGENT ASSETS AND LIABILITIES

A contingent asset arises from possible reimbursement payments by the insurer for damage caused by the fire at the site in Spartanburg, South Carolina, USA, at the end of October 2020. The amount cannot be reliably estimated at this time.

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

The condensed half-year consolidated financial statements and the Group interim management report were neither audited by a public auditor nor subjected to a review (section 115 (5) WpHG).

# SEGMENT REPORTING BY BUSINESS AREA

| | engineered products | | flexible films | | surface technologies | | precision components | | Discontinued operations: it/services | |
|---|---|---|---|---|---|---|---|---|---|---|
| in € thousands | H1 \| 2021 | H1 \| 2020 | H1 \| 2021 | H1 \| 2020 | H1 \| 2021 | H1 \| 2020 | H1 \| 2021 | H1 \| 2020 | H1 \| 2021 | H1 \| 2020 |
| **Revenue** | **60,000** | **66,981** | **67,344** | **50,938** | **30,653** | **25,229** | **22,235** | **18,647** | **7,831** | **10,581** |
| Segment result[1] | 5,262 | −6,638 | 9,945 | 8,101 | 5,901 | 10,796 | 1,890 | 86 | 1,560 | 1,824 |
| Depreciation and amortisation | 2,698 | 3,598 | 2,011 | 1,653 | 5,787 | 5,858 | 1,882 | 1,976 | 106 | 513 |
| Operating result | 2,564 | −10,236 | 7,934 | 6,448 | 114 | 4,938 | 8 | −1,890 | 1,454 | 1,311 |
| Investments[2] | 1,753 | 449 | 1,648 | 1,009 | 9,006 | 6,359 | 3,039 | 1,777 | 267 | 284 |
| Working capital | 38,810 | 46,871 | 29,127 | 25,045 | 4,391 | 2,363 | 11,715 | 11,813 | 0 | 2,234 |
| Employees (30 June) | 669 | 893 | 334 | 320 | 752 | 746 | 573 | 593 | 68 | 115 |

| | Holding company/ head office | | Consolidation | | Consolidated result | | Elimination of it/ services | | Consolidated result of continuing operations | |
|---|---|---|---|---|---|---|---|---|---|---|
| in € thousands | H1 \| 2021 | H1 \| 2020 | H1 \| 2021 | H1 \| 2020 | H1 \| 2021 | H1 \| 2020 | H1 \| 2021 | H1 \| 2020 | H1 \| 2021 | H1 \| 2020 |
| **Revenue** | **2,145** | **0** | **−1,140** | **−2,043** | **189,068** | **170,333** | **−7,336** | **−8,548** | **181,732** | **161,785** |
| Segment result[1] | −4,200 | −2,723 | 683 | 6,840 | 21,041 | 18,286 | −1,191 | −30 | 19,850 | 18,256 |
| Depreciation and amortisation | 308 | 403 | 40 | 123 | 12,832 | 0 | −106 | −513 | 12,726 | −513 |
| Operating result | −4,508 | −3,126 | 643 | 6,717 | 8,209 | 4,162 | −1,085 | 483 | 7,124 | 4,645 |
| Investments[2] | 42 | 327 | 0 | 0 | 15,755 | 10,205 | −267 | −284 | 15,488 | 9,921 |
| Working capital | −999 | −1,516 | −2 | −123 | 83,042 | 86,687 | 0 | 0 | 83,042 | 86,687 |
| Employees (30 June) | 46 | 37 | 0 | 0 | 2,442 | 2,704 | −68 | −85 | 2,374 | 2,619 |

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] Relates to intangible assets and property, plant and equipment.

# RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable accounting standards for interim reporting, we affirm that the consolidated interim financial statements give a true and fair view of the financial position, cash flows and financial performance of the Group, and the Group management report presents the business performance including the operating result and the position of the Group so that a true and fair view is presented, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year."

Fulda, 24 September 2021

KAP AG
Management Board

Eckehard Forberich
Member and Spokesman
of the Management Board

Marten Julius
CFO

# FINANCIAL CALENDER

| | |
|---|---|
| **30/09/2021** | Annual General Meeting |
| **24/11/2021** | Publication of the Q3 2021 interim report |
| **24/11/2021** | Analyst/investor conference as part of the Deutsches Eigenkapitalforum, Frankfurt am Main (virtual) |

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

# CONTACT

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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.

**www.kap.de**

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