Half-year report 2023

1 January to 30 June 2023

H1/23

kap

KEY FIGURES

Selected key figures

		H1 | 2023	H1 | 2022	Change (%)
Group				
Revenue	€ millions	201.2	229.4	–12.3
Normalised EBITDA	€ millions	15.9	23.1	–31.1
Normalised EBITDA margin	%	7.9	10.1	–2.2 PP
Profit for the period after taxes	€ millions	32.9	11.6	183.6
Earnings per share	€	4.39	1.56	181.4
Capital expenditure	€ millions	17.4	13.5	28.8
Amortisation and depreciation	€ millions	15.6	15.0	4.0
Cash flow from operating activities	€ millions	8.1	8.6	–5.8

		30/06/2023	31/12/2022	Change (%)
Non-current assets	€ millions	203.0	208.8	–2.8
Current assets	€ millions	186.4	143.4	30.0
Equity	€ millions	208.1	176.9	17.6
Equity ratio	%	53.3	44.0	9.3 PP
Non-current liabilities	€ millions	84.0	108.4	–22.5
Current liabilities	€ millions	98.6	104.5	–5.6

	H1 | 2023	H1 | 2022	Change (%)
Employees (30 June)	2,702	2,905	–7.0

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LETTER TO OUR SHAREHOLDERS

DEAR SHAREHOLDERS,

Unchanged in the first half of 2023, the global economy still bowed under the weight of multiple uncertainties as regards future developments and burdened by the high costs for energy and raw materials. The recession in Germany and interest rate increases by central banks have led to intensely reticent demand in our key sales markets – automotive and construction. The resulting effects also affected our business, either directly or indirectly. After a good start to the year, we were accordingly faced with significantly declining demand in the second quarter. Overall, however, KAP AG proved resilient. We were able to navigate the challenging environment thanks to our business model that is diversified and specialised in attractive niche markets. The positive revenue development in the first half of the year in two out of four segments also reflects this. At the same time, we again sharpened our investment portfolio, gaining headroom for further capital expenditures in our segments and their sub-segments. However, like many other companies with a diversified footprint, our sense is that we will not see the anticipated upturn after the summer break and that our business will remain challenging in the coming months.

Two of our segments, **precision components** and **surface technologies**, developed positively in the first half of the year. Both segment were able to generate significant double-digit growth rates. This development partly offset the weak performance of the two segments **engineered products** and **flexible films**. Overall, our revenue decreased by 12.3% to €201.2 million in the reporting period. However, it needs to be borne in mind that we completed the sale of a subsection of the **flexible films** segment in April 2023 that had contributed to the revenue reported for the previous year. On a comparable basis, i.e. without the revenue of the entities divested, the figure for the first half of 2023 was €180.9 million, corresponding to a decrease of 5.8%. In the year to date, we have increasingly been able to pass on to our customers the high production costs resulting from higher materials and energy costs, although not in full. In some cases, it became apparent that price trends were easing, yet the burdens weighing on our profitability remain in 2023. Accordingly, normalised EBITDA fell by 31.2% to €15.9 million, resulting in a normalised EBITDA margin of 7.8%. Considering the development of earnings on a comparable basis, i.e. without the entities divested in April, likewise reveals a somewhat smaller decrease in normalised EBITDA of 17.3% to €14.3 million.

As an agile and responsibly operating industrial holding company, the KAP Group as a matter of principle permanently challenges operating activities in all segments and considers where changes and additions to the portfolio of investees would be advantageous and offer promising prospects. Once we have identified a need for action or any opportunities for sustainable value development, we take decisive action. By closing the sale of a subsection of the **flexible films** segment in the reporting period, we have divested operations that – considering the currently weak construction market – will be in a better position to develop strategically in a larger corporate group outside the KAP Group. Based on the highly attractive proceeds, we are gaining financial headroom for the strategic development of our existing segments. This way, we want to further strengthen each segment's market position by making targeted investments, while also obtaining an attractive dividend yield.

On the whole, we firmly believe that we are in a good position with our diversified business model. That said, we need to continuously improve in terms of efficiency and effectiveness to continue to operate in the market successfully in spite of all present and approaching difficulties, and to set our sights on the future. To this end, we have identified and initiated various measures that we will implement in the second half of 2023. This concerns in particular adjustments to personnel and capacities. Partly in light of the fact that following a weak second quarter of 2023 we no longer expect the economy to recover quickly after the summer break, as previously anticipated, we adjusted our full-year guidance forecast in August 2023. We expect the economy to remain at the current low level or indeed to weaken. This applies in particular to the markets of relevance for KAP. Accordingly, we now expect significantly lower revenue and significantly lower normalised EBITDA for the full year 2023, in each case with an anticipated year-on-year deviation in the low double-digit percentage range. To date, revenue and normalised EBITDA were expected to be slightly above the previous year.

We would like to say thank you to all employees in the KAP Group, who with their commitment each day lay the foundation for our successful development. We also wish to thank our business partners as well as our shareholders for their great trust and loyalty.

Yours sincerely,

Marten Julius
Chief Financial Officer

[1] Excluding the entities sold on 21 April 2023, in the previous year, revenue amounted to €360.1 million and normalised EBITDA to €23.5 million.

Interim Group Management Report

INTERIM GROUP MANAGEMENT REPORT

MACROECONOMIC ENVIRONMENT

The numerous crises and associated disruptions that noticeably slowed the global economy's pace of growth in 2022 continued to put a damper on global economic development in the first half of 2023, More than a year after Russia's invasion in Ukraine, the global economic situation remains fragile due to the negative repercussions for raw materials and energy markets. Inflation rates are still above the leading central banks' target corridor. Their strict monetary policy with interest rate increases in stages has already brought inflation down slightly, but has also applied further pressure on the financial markets and additionally hampered the upturn. Rising consumer prices also had a negative impact on consumer sentiment and purchasing power. According to the World Economic Outlook Update published by the International Monetary Fund (IMF) in July 2023, global gross domestic product (GDP) is expected to rise by just 3.0% in 2023, The growth rate had still been 3.5% in 2022.

The slowing growth dynamics are significantly impacting what are referred to as advanced economies. For this group, the growth rate is forecast to be almost cut in half – from 2.7% to 1.5%. According to the IMF's estimate, GDP in the European Union (EU) will grow by just 0.9% for the full year 2023, which equates to a 2.6 percentage-point decrease in the growth rate. For the United States, only a moderate decline in the growth rate is forecast, down 0.3 percentage points to 1.8%.

Germany's economy experienced a weak start to the year 2023, After GDP had started contracting at year-end 2022 already, adjusted for price, seasonal and calendar effects GDP fell by 0.3% in the first quarter of 2023 according to calculations by the Federal Statistical Office (Destatis). After two consecutive negative quarters, the economy was thus in what is considered a technical recession. Positive impetus stemmed above all from construction investment (+3.9%) and spending on capital goods (+3.2%). However, the persistently high price increases impacted consumer behaviour dramatically. Private consumption accordingly shrank by 1.2% compared with the previous quarter, practically in all segments. Government spending additionally contracted by 4.9% compared with the previous quarter. The Federation of German Industries (BDI) expects GDP to move sideways in Germany in 2023, projecting a growth rate of 0.0% for the full year in its most recent forecast published in June 2023.

DEVELOPMENT OF KEY 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. There is only limited publicly available data on current developments in these markets due to their particular nature. The general economic situation and the segment companies' key customer sectors – the automotive sector, industrial production and the construction sector – are key for the development of the segments and the segment companies.

According to the German Association of the Automotive Industry (VDA), most international automotive markets recorded a rise in the number of new registrations in the first half of 2023. On the European passenger car market, well over 6.6 million vehicles were registered in the first six months. That is 18% more than in the same period of the previous year, in which the effects of the Russia-Ukraine war had a particularly strong impact on the European (EU, EFTA & UK) market's development.

This positive development reflects above all a higher level of availability of vehicles as supply chain issues ease noticeably, which has led to overstated growth rates. For the year as a whole, the VDA projects growth of around 9% to just under 12.3 million vehicles.

According to the VDA, new passenger car registrations in Germany rose by 13% in the first half of 2023. Despite the respectable growth rate, the market has not yet returned to its pre-crisis level: Compared with the first six months of 2019, new registrations were still down 24%. Registration numbers of fully electric vehicles remained strong without change, up 32% to 220,200 vehicles. Sales of light vehicles (cars and light trucks) in the United States increased by 13% in the reporting period to just under 7.7 million vehicles. In China, 11.1 million vehicles were sold, around 9% more than in the comparative period. The Indian market continued on its growth path in the first half of 2023, expanding by 10% to 2.0 million cars sold.

In the manufacturing industry, real production contracted by 0.2% after adjustment for seasonal and calendar effects in May 2023 compared with April 2023 based on provisional Destatis data. Based on a less volatile three-month comparison, production in the period between March and May was 0.2% higher than in the previous three months. Industrial production (manufacturing industry without the energy and construction sector) likewise rose by 0.2% over the same period. While the production of capital goods rose by 1.3%, consumer goods production shrank by 1.2% and intermediate goods production by 0.5%. Outside of industry, production in the construction sector fell by 0.4%.

BUSINESS PERFORMANCE AND DEVELOPMENT OF REVENUE AND EARNINGS OF THE KAP GROUP

KAP Group

€ millions	H1 | 2023	H1 | 2022[1]	Change (%)
Revenue	201.2	229.4	–12.3
EBITDA	60.3	32.2	87.3
Normalisation adjustments	–44.4	–9.1	> 100.0
Normalised EBITDA	15.9	23.1	–31.2
Normalised EBITDA margin (%)	7.9	10.1	–2.2 PP
Capital expenditure	17.4	13.5	28.8
Employees (30 June)	2,702	2,905	–7.0

[1] The key figures for the previous period have been restated for adjustments in the flexible films segment.

In the first half of 2023, the KAP Group generated revenue of €201.2 million, which represents a decrease of 12.3% year on year (previous year: €229.4 million). This development must be seen against the background of the sale closed in April 2023 of a subsection of the **flexible films** segment and completion of a large customer contract at year-end 2022 in the **engineered products** segment. Whereas revenue in the two segments **surface technologies** and **precision components** performed well with significant double-digit growth rates, in the two segments **flexible films** and **engineered products** revenue was down significantly on account of changes in the consolidated group and the completion of a large order. Without the entities divested in April 2023, revenue decreased by 5.8% to €180.9 million (previous year: €192.0 million). The segments' heterogeneous development demonstrates how important the KAP Group's high level of diversification is. Exceptional developments and weaker demand in individual segments can be offset at least partly by a good performance in other segments. Overall, operations developed soundly in the first half of 2023 in a challenging environment.

As a result of considerably lower costs of raw materials and energy, cost of materials fell by 21.6% in the reporting period to €107.8 million (previous year: €137.5 million), and thus more sharply than revenue. Accordingly, cost of materials as a percentage of revenue decreased by 4.6 percentage points to 53.9% (previous year: 58.5%). Personnel expenses increased by 7.3% to €55.1 million in the first half of 2023 (previous year: €51.3 million). In connection with the decline in revenue, personnel expenses as a percentage of total operating performance increased by 5.8 percentage points to 27.6% (previous year: 21.8%). This reflects above all weaker capacity utilisation in the second quarter to which the Group was not yet able to respond at such short notice.

Other operating income increased significantly to €57.4 million (previous year: €17.6 million) following the sale of a subsection of the **flexible films** segment. Further material items included in other operating income besides the gain on sale of €44.0 million are the insurance indemnification of €7.2 million and exchange rate gains of €1.8 million. Other operating expenses increased by 7.6% to €34.0 million (previous year: €31.6 million). The increase is mainly due to higher consulting costs associated with the sale of a subsection of the **flexible films** segment.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) were up 87.3% in the first half of 2023 to €60.3 million (previous year: €32.2 million) and were normalised for non-recurring effects and special items totalling €–44.4 million (previous year: €9.1 million). The normalisation adjustments mainly related to the gain of €44.0 million recorded following completion of the sale of a subsection of the **flexible films** segment as well as, on the other hand, non-recurring expenses from the start-up of the new production facility at the Jasper site, Alabama, USA, and consulting costs associated with the sale of a subsection of the segment. Normalised EBITDA was down 31.2% to €15.9 million (previous year: €23.1 million). This results in a normalised EBITDA margin of 7.9% for the first half of 2023 (previous year: 10.1%), which equates a decrease of 2.2 percentage points. Considering the development of earnings on a comparable basis, i.e. without the profit contributions of the **flexible films** segment entities divested, likewise reveals a smaller decrease in normalised EBITDA of 17.3% to €14.3 million (previous year: €17.3 million) and a reduction in the normalised EBITDA margin of merely 1.1 percentage points.

Depreciation, amortisation and impairment losses increased by 50.0% to €22.5 million (previous year: €15.0 million). The increase is due to impairment losses of €6.9 million. These became necessary following a fire at our plant in Poland in June in the **surface technologies** segment, in which a large plant and part of our buildings were destroyed. The KAP Group is insured for such losses. The related insurance indemnification is presented in other operating income.

Normalised EBIT decreased year on year to €0.3 million (previous year: €8.1 million). Earnings before taxes improved to €34.6 million (previous year: €15.7 million). The tax expense of €2.3 million was lower than the previous year's level of €4.7 million. There was only a minor change in earnings from discontinued operations, which came to €0.6 million. On aggregate, consolidated profit/loss thus rose from €11.6 million to €32.9 million in the first half of 2023.

SEGMENT REPORTING

FLEXIBLE FILMS SEGMENT DEVELOPMENT

flexible films

€ millions	H1 | 2023	H1 | 2022[1]	Change (%)
Revenue	71.3	98.7	–27.8
Normalised EBITDA	9.2	14.4	–36.1
Normalised EBITDA margin (%)	12.9	14.6	–1.7 PP
Capital expenditure	2.0	2.9	–31.0
Employees (30 June)	492	545	–9.7

[1] The key figures for the previous period have been restated for adjustments in the segment.

The **flexible films** segment generated revenue of €71.3 million in the first half of 2023, down 27.8% compared with the strong previous-year period (previous year: €98.7 million). The segment's development is mainly due to changes in the consolidated group, as KAP AG completed the announced sale of a subsection of the segment in April 2023. A comparison with the previous year's figures is therefore of limited use only. Excluding the contribution of the subsection sold, segment revenue in the first half of 2023 was down 16.8% to €51.0 million (previous year: €61.3 million). This reflects decreasing cocooning effects after the end of the pandemic, but also price discounts granted in a small number of niche markets. In addition, the weaker construction sector dampened the development of business. Normalised EBITDA decreased accordingly by 36.1% to €9.2 million (previous year: €14.4 million) and without the contribution of the subsection sold by 11.6% to €7.6 million (previous year: €8.6 million). The EBITDA margin narrowed by 1.7 percentage points to 12.9% (previous year: 14.6%); without the contribution of the segment's sold subsection it increased by 0.9 percentage points to 14.9% (previous year: 14.0%).

In the reporting period, the segment made capital expenditures of €2.0 million, which is down 31.0% on the comparative period (previous year: €2.9 million). The capital expenditure primarily related to measures for increasing efficiency.

The number of employees decreased as of 30 June 2023 – on account of the changes to the consolidated group – by 9.7% to 492 (previous year: 545).

ENGINEERED PRODUCTS SEGMENT DEVELOPMENT

engineered products

€ millions	H1 | 2023	H1 | 2022	Change (%)
Revenue	65.1	76.4	–14.8
Normalised EBITDA	3.2	5.3	–39.6
Normalised EBITDA margin (%)	4.9	6.9	–2.0 PP
Capital expenditure	2.8	4.1	–31.7
Employees (30 June)	803	887	–9.5

In the **engineered products** segment, revenue decreased by 14.8% to €65.1 million (previous year: €76.4 million) due to a larger customer order that was completed at the end of 2022. In addition, a growing reticence on the part of customers in the automotive sector with respect to call volumes had a negative effect on revenue development. In view of the completed high-margin order and weak performance of the automotive business, normalised EBITDA decreased by 39.6% to €3.2 million (previous year: €5.3 million). The normalised EBITDA margin dropped accordingly by 2.0 percentage points to 4.9% (previous year: 6.9%). Comprehensive initiatives to optimise working capital management, including particularly measures for efficient inventory management, had a positive effect in the first half of 2023, reducing working capital significantly in this segment.

The segment's capital expenditure was reduced as planned in the reporting period by 31.7% to €2.8 million (previous year: €4.1 million). The previous-year period had included material capital expenditure on the construction of a new production hall and plant at the Hessisch Lichtenau site. These construction projects aimed at increasing production capacity were completed in July 2023.

As of 30 June 2023, 803 people were employed in the segment (previous year: 887), which is 9.5% fewer than as of the same reporting date of the previous year. The decrease is attributable to the completion of the customer contract mentioned above, which led to a corresponding adjustment of the workforce.

SURFACE TECHNOLOGIES SEGMENT DEVELOPMENT

surface technologies

€ millions	H1 | 2023	H1 | 2022	Change (%)
Revenue	36.6	32.5	12.6
Normalised EBITDA	3.5	3.9	–10.3
Normalised EBITDA margin (%)	9.6	12.0	–2.4 PP
Capital expenditure	10.6	2.7	> 100.0
Employees (30 June)	735	765	–3.9

In the **surface technologies** segment, revenue in the first half of 2023 increased by 12.6% to €36.6 million (previous year: €32.5 million). These positive developments were thanks to notable revenue contributions from the new site in Jasper, USA, and to improved capacity utilisation of the zinc-nickel facility in Poland. There was a fire at this plant at the end of June. No people were injured, but a large plant and part of our buildings were destroyed. The damage is covered by insurance and we were able to transfer almost all orders to other production facilities so that the fire hardly impacted our customers or our revenue and earnings. Furthermore, price increases owing to the sharp rise in energy prices contributed to revenue growth, although it was not possible to pass on the increased costs in full. This impacted the segment's profitability negatively, as did the expenses in connection with production process optimisations in Jasper. Normalised EBITDA fell accordingly by 10.3% to €3.5 million (previous year: €3.9 million). The normalised EBITDA margin decreased by 2.4 percentage points to 9.6% (previous year: 12.0%).

Capital expenditure in this segment rose significantly in the reporting period to €10.6 million (previous year: €2.7 million) and related primarily to further investments at our new plant in Jasper.

As of 30 June 2023, the segment employed 735 people, down slightly by 3.9% compared with the end of the same period of the previous year (previous year: 765).

PRECISION COMPONENTS SEGMENT DEVELOPMENT

precision components

€ millions	H1 | 2023	H1 | 2022	Change (%)
Revenue	28.1	22.2	26.6
Normalised EBITDA	1.7	0.7	> 100.0
Normalised EBITDA margin (%)	6.0	3.2	2.8 PP
Capital expenditure	1.4	3.6	–61.1
Employees (30 June)	611	646	–5.4

The **precision components** segment recorded marked revenue growth of 26.6% in the first half of 2023 to €28.1 million (previous year: €22.2 million). This positive development was due in particular to the increased ability to pass on the rise in energy and raw materials costs to the segment's customers as well as higher unit sales. Normalised EBITDA grew to €1.7 million (previous year: €0.7 million). Additional positive effects from the consistently implemented measures to improve the efficiency of established production processes at various locations as well as an overall higher-value product mix improved the segment's profitability significantly. The normalised EBITDA margin rose accordingly by 2.8 percentage points to 6.0% (previous year: 3.2%).

The segment's capital expenditure was down 61.1% to €1.4 million (previous year: €3.6 million). This development is due above all to the high investments made in the Dresden plant in the comparative previous-year period.

The headcount was 611 as of 30 June 2023 (previous year: 646). This is a decrease of 5.4% and is a result of the efficiency enhancement measures implemented.

CASH FLOWS

Selected key indicators on cash flows

€ millions	H1 | 2023	H1 | 2022[1]	Change (%)
Cash flow from operating activities	8.1	8.6	–5.8
Cash flow from investing activities	63.1	–37.9	> 100.0
Cash flow from financing activities	–31.4	28.5	>–100.0
Net change in cash and cash equivalents	39.8	–0.8	> 100.0
Cash and cash equivalents at end of period	49.5	16.6	> 100.0

[1] The key figures for the previous period have been restated for adjustments in the flexible films segment.

The cash flow from operating activities decreased slightly in the first half of 2023 to €8.1 million (previous year: €8.6 million). The decrease is due to declining operating business compared with the previous reporting period. These effects were mitigated to some extent by active and efficient working capital management. Working capital was reduced further in the reporting period by €4.1 million to €80.5 million (previous year: €84.6 million).

The cash flow from investing activities came to €63.1 million (previous year: €–37.9 million). In the previous-year period, the cash outflow for investing activities included the acquisition of Haogenplast, whereas the cash inflow in the reporting period stemmed from the sale of a subsection of the **flexible films** segment.

The cash flow from financing activities amounted to €–31.4 million in the first half of 2023 (previous year: €28.5 million). Part of the cash received from the sale of the subsection of the **flexible films** segment was used to settle existing financial liabilities. In contrast, there was the acquisition of Haogenplast to finance in the previous-year period.

FINANCIAL POSITION

As of 30 June 2023, the KAP Group had total assets of €390.7 million, down €11.2 million on the year-end 2022 level of €401.9 million.

On the assets side, non-current assets decreased by €5.8 million to €203.0 million (31 December 2022: €208.8 million). Intangible assets fell by €1.7 million to €29.1 million. Caused primarily by the fire at our plant in Poland and the related impairment losses, property, plant and equipment decreased by €5.0 million to €168.6 million. Other financial assets increased by €1.3 million to €1.7 million. Compared with 31 December 2022, deferred tax assets dropped by €0.5 million to €3.6 million.

Current assets grew considerably by €43.0 million to €186.4 million (31 December 2022: €143.4 million). This development is due above all to the cash inflow from the sale of a subsection of the **flexible films** segment. As of the reporting date, cash and cash equivalents rose by €39.7 million to €49.5 million. Further optimisation of working capital management, particularly more efficient inventory management, reduced the level of inventories by €10.5 million to €64.7 million. By contrast, trade receivables increased by €3.2 million to €49.1 million. Other receivables and assets rose by €10.4 million to €21.7 million on account of the insurance indemnification claims related to the fire at our plant in Poland. There was no material change in income tax assets, which amounted to €1.3 million. Following the sale completed in April of a subsection of the **flexible films** segment, non-current assets and disposal groups held for sale were reduced by a total of €48.5 million to €1.2 million.

On the equity and liabilities side, equity increased by €31.2 million to €208.1 million (31 December 2022: €176.9 million). The increase reflects the profit for the period. Non-current liabilities fell by €24.4 million to €84.0 million as of the reporting date. The €22.7 million decrease in non-current financial liabilities to €63.0 million results from the redemption payments made in connection with the cash received from the sale of a subsection of the **flexible films** segment. Provisions for pensions and similar obligations changed marginally, decreasing by €0.3 million to €12.6 million. Deferred tax liabilities amounted to €8.0 million after €9.4 million as of the reporting date in the previous year.

Current liabilities fell by €5.9 million to €98.6 million. Whereas other liabilities, which comprise various items relating to the sale of the subsection of the **flexible films** segment, jumped 65.6% to €25.0 million, all other current liability items declined. Current financial liabilities, for instance, decreased by €8.5 million to €23.4 million as a result of the above-mentioned repayments made. Trade payables were reduced by €3.2 million to €33.3 million. Other provisions dropped by €4.0 million to €9.4 million; income tax liabilities were down €0.3 million to €7.3 million. Liabilities associated with discontinued operations and disposal groups were reduced by €12.2 million to €0 by the sale of a subsection of the **flexible films** segment.

OPPORTUNITIES AND RISKS

A description of the major opportunities and risks and the principles of the KAP Group's risk management system can be found in the group management report in the published 2022 Annual Report from page 50 onwards. The KAP Group's opportunity and risk situation described there did not change materially in the first half of 2023.

The risks arising from the Russia-Ukraine war, such as continued heightened inflation, which might lead to rising prices and consumer spending falling as a result, still represent the largest uncertainty factor in terms of the global economy's short- and medium-term development. These uncertainties could lead to a further slowdown in global GDP development. While the KAP Group's diversification across multiple segments and its broad product portfolio minimises its dependence on the development of individual industry sectors, it is not possible to rule out that a slowdown in global economic growth dynamics could have negative effects on the KAP Group. At the date of publication of this report, it is not possible to make a concrete assessment of how the Russia-Ukraine war will pan out and how its repercussions will affect the KAP Group specifically.

Taking account of all the facts known, there are currently no identifiable individual risks that might jeopardise the KAP Group's ability to continue as a going concern. This also applies to the overall assessment of all risks.

EVENTS AFTER THE REPORTING PERIOD

In agreement with Mr Eckehard Forberich, the Supervisory Board decided on 7 August 2023 to part company with Mr Eckehard Forberich as member and Spokesman of the Management Board of KAP AG.

In addition, KAP AG adjusted its full-year guidance forecast on 21 August 2023. Accordingly, significantly lower revenue and significantly lower normalised EBITDA are now forecast for the full year 2023, in each case with an expected year-on-year deviation in the low double-digit percentage range. To date, revenue and normalised EBITDA were expected to be slightly above the previous year.

There were no further significant events after the reporting period to report up to 29 August 2023 (the date of approval for publication by the Management Board).

OUTLOOK

For the full financial year, we expect that the course of business for us will be significantly impacted by challenges in our relevant end markets. Partly in light of the fact that following a weak second quarter of 2023 we no longer expect the economy to recover quickly after the summer break, as previously anticipated, we adjusted our full-year guidance forecast in August 2023. We expect the economy to remain at the current low level or indeed to weaken. This applies in particular to the markets of relevance for KAP. Accordingly, we now expect significantly lower revenue and significantly lower normalised EBITDA for the full year 2023, in each case with an anticipated year-on-year deviation in the low double-digit percentage range. To date, revenue and normalised EBITDA were expected to be slightly above the previous year. In the previous year, without the divested entities in the **flexible films** segment, revenue of €360.1 million and normalised EBITDA of €23.5 million were generated.

Financial information

Development of the KAP Group in H1 2023

CONSOLIDATED STATEMENT OF INCOME

FROM 1 JANUARY TO 30 JUNE 2023

in € thousands	H1 | 2023	H1 | 2022[1]
Revenue	**201,164**	**229,413**
Change in inventories and other own work capitalised	–1,364	5,576
Total operating performance	**199,800**	**234,989**
Other operating income	57,374	17,601
Cost of materials	–107,775	–137,469
Personnel expenses	–55,102	–51,334
Amortisation and impairment of intangible assets and depreciation and impairment of property, plant and equipment	–22,494	–15,023
Other operating expenses	–33,970	–31,574
Operating result	**37,833**	**17,189**
Interest result	–3,220	–1,580
Other financial result	–31	89
Financial result	**–3,251**	**–1,491**
Earnings from continuing operations before income taxes	**34,582**	**15,698**
Income taxes	–2,316	–4,714
Earnings from continuing operations	**32,266**	**10,984**
Earnings from discontinued operations after taxes	643	579
Consolidated profit/loss after taxes	**32,909**	**11,563**
Non-controlling interests	558	31
Consolidated profit/loss attributable to the shareholders of KAP AG	**33,467**	**11,594**
Basic earnings per share (€)		
Earnings from continuing operations	4.31	1.49
Earnings from discontinued operations	0.08	0.07
	4.39	**1.56**

[1] The consolidated statement of income for the previous period has been restated for adjustments in the flexible films segment.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS

FROM 1 JANUARY TO 30 JUNE 2023

in € thousands	H1 | 2023	H1 | 2022[1]
Consolidated profit/loss after taxes	**32,909**	**11,564**
Unrealised gains from currency translation	–1,429	–448
Items that may be reclassified subsequently to profit or loss	**–1,429**	**–448**
Other comprehensive income after taxes	**–1,429**	**–448**
thereof attributable to the shareholders of KAP AG	–1,429	–448
Total comprehensive income	**31,480**	**11,116**
thereof attributable to non-controlling interests	–558	–31
thereof attributable to the shareholders of KAP AG	32,038	11,147

[1] The consolidated statement of comprehensive income/loss for the previous period has been restated for adjustments in the flexible films segment.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE PERIOD ENDED 30 JUNE 2023

in € thousands	30/06/2023	31/12/2022
ASSETS		
Non-current assets		
Intangible assets	29,135	30,782
Property, plant and equipment	168,622	173,571
Other financial assets	1,717	384
Deferred tax assets	3,566	4,087
	203,040	**208,824**
Current assets		
Inventories	64,739	75,218
Trade receivables	49,099	45,921
Income tax receivables	1,298	1,243
Other receivables and assets	21,721	11,292
Cash and cash equivalents	49,522	9,750
	186,379	**143,425**
Assets and disposal group classified as held for sale	**1,234**	**49,695**
	390,653	**401,944**

in € thousands	30/06/2023	31/12/2022
EQUITY AND LIABILITIES		
Equity and reserves		
Subscribed capital	20,196	20,196
Capital reserve	86,921	86,921
Reserves	12,610	14,039
Retained earnings	88,300	55,137
Equity attributable to the shareholders of KAP AG	**208,027**	**176,293**
Non-controlling interests	26	583
	208,053	**176,876**
Non-current liabilities		
Provisions for pensions and similar obligations	12,608	12,876
Non-current financial liabilities	63,027	85,684
Deferred tax liabilities	8,031	9,443
Other non-current liabilities	381	381
	84,047	**108,385**
Current liabilities		
Other provisions	9,422	13,380
Current financial liabilities	23,446	31,903
Trade payables	33,309	36,506
Income tax liabilities	7,330	7,620
Other liabilities	25,046	15,124
	98,553	**104,533**
Liabilities associated with disposal group	**–**	**12,150**
	390,653	**401,944**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 JUNE 2023

			Revenue reserves	
in € thousands	**Subscribed capital**	**Capital reserve**	**Exchange differences**	**Actuarial gains/losses**
01/01/2022	**20,196**	**86,921**	**–19,969**	**–6,115**
Correction of error	–	–	26,717	–
Total as of 01/01/2022 (restated retrospectively) at beginning of financial year	**20,196**	**86,921**	**6,748**	**–6,115**
Consolidated profit/loss	–	–	–	–
Other comprehensive income before taxes	–	–	–449	–
Total comprehensive income	–	–	–449	–
Other changes	–	–	–	–
30/06/2022 (restated retrospectively)	**20,196**	**86,921**	**6,300**	**–6,115**
01/01/2023	**20,196**	**86,921**	**6,059**	**–3,998**
Consolidated profit/loss	–	–	–	–
Other comprehensive income before taxes	–	–	–1,429	–
Total comprehensive income	**–**	**–**	**–1,429**	**–**
Dividends paid to shareholders	–	–	–	–
Change in consolidated group	–	–	–	–
Other changes	–	–	–	–
30/06/2023	**20,196**	**86,921**	**4,631**	**–3,998**

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

Other	Total	Consolidated retained earnings	Equity attributable to KAP shareholders	Non-controlling interests	Total equity
9,411	**–16,672**	**91,696**	**182,141**	**546**	**182,687**
2,567	29,284	–26,717	2,567	**–**	2,567
11,978	**12,612**	**64,979**	**184,708**	**546**	**185,254**
–	–	11,594	11,594	–31	11,563
–	–449	–	–449	–	–449
–	–449	11,594	11,144	–31	11,114
–	–	–13	–13	–	–13
11,978	**12,163**	**76,560**	**195,840**	**516**	**196,356**
11,978	**14,039**	**55,137**	**176,292**	**583**	**176,876**
–	–	33,467	33,467	–558	32,909
–	–1,429	–	–1,429	–	–1,429
–	**–1,429**	**33,467**	**32,037**	**–558**	**31,480**
–	–	–300	–300	–	–300
–	–	–	–	–	–
–	–	–3	–3	–	–3
11,978	**12,610**	**88,300**	**208,027**	**26**	**208,053**

CONSOLIDATED STATEMENT OF CASH FLOWS

FROM 1 JANUARY TO 30 JUNE 2023

in € thousands	H1 | 2023	H1 | 2022
Consolidated profit/loss after taxes	**32,909**	**11,563**
less earnings from discontinued operations after taxes	–643	–579
Earnings from continuing operations	**32,266**	**10,984**
Interest income	–276	–33
Interest expenses	3,495	1,613
Income taxes	2,316	4,714
Earnings before interest and income taxes	**37,802**	**17,278**
Depreciation, amortisation and impairment of non-current assets (net of any reversals)	22,494	15,023
Change in provisions	–4,226	–6,326
Other non-cash expenses and income	–522	966
Gains/losses on the disposal of non-current assets including non-current assets held for sale	–44,454	–1,445
Change in inventories, receivables and other assets not attributable to investing and financing activities	–3,128	–34,907
Change in payables and other liabilities not attributable to investing and financing activities	6,725	21,825
Interest received	276	33
Interest paid	–3,285	–1,613
Income taxes paid	–3,553	–2,280
Cash flow from operating activities	**8,128**	**8,554**
Proceeds from disposals of property, plant and equipment including investment properties	751	2,322
Investments in property, plant and equipment	–15,796	–10,623
Investments in intangible assets	–442	–350
Cash inflow from the disposal of consolidated companies	79,878	–
Cash outflow from the addition of consolidated companies net of cash acquired	–	–29,299
Investments in the securities portfolio	–1,333	–
Proceeds from repayments of financial receivables	–	14
Cash flow from investing activities	**63,058**	**–37,936**
Dividends paid to shareholders	–300	–
Proceeds from borrowings	–26,493	104,954
Repayment of lease liabilities	–2,417	–1,125
Repayment of bank liabilities	–2,205	–75,303
Cash flow from financing activities	**–31,414**	**28,526**
Net change in cash and cash equivalents	39,772	–856
Cash and cash equivalents at beginning of period	9,750	17,421
Cash and cash equivalents at end of period	**49,522**	**16,565**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL NOTES

KAP AG's interim financial statements for the period ended 30 June 2023 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. The interim report complies with the requirements on interim reporting as set out in IAS 34 and is presented in condensed form.

The interim financial statements contain disclosures and explanatory notes concerning items of the consolidated statement of financial position, the consolidated statement of income, the consolidated statement of cash flows, the consolidated statement of changes in equity and segment reporting, insofar as they are material.

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 (€ thousands) unless otherwise stated. As the figures are presented in € thousands, the numbers may not add up due to rounding differences.

KAP AG is a listed industrial holding company that holds stakes in medium-sized companies. KAP AG's registered office is Edelzeller Strasse 44, 36043 Fulda, Germany, and the Company is entered under HRB 5859 in commercial register B at Fulda District Court.

2. CONSOLIDATED GROUP

In addition to KAP AG, the interim financial statements for the period ended 30 June 2023 include all material domestic and foreign subsidiaries over which KAP AG has legal and/or de facto control.

In addition to KAP AG, the consolidated group includes 22 German and 19 foreign entities (previous year: 28 German and 21 foreign entities).

Steinweg Kunststoffolien GmbH, Castrop-Rauxel, is in liquidation. As it is not material for the Group's financial position, cash flows and financial performance, the entity was deconsolidated as of 1 January 2023.

In the third quarter of 2022, the Management Board and Supervisory Board decided to sell a subsection of the **flexible films** segment. The entities to be divested were combined in a disposal group. The signing took place on 6 March 2023. On 21 April 2023 KAP AG closed the sale of this subsection of its **flexible films** segment to Kingspan Holding GmbH, an entity of Kingspan Group Plc., Ireland. The divested entities are CaPlast Kunststoffverarbeitungs GmbH, Nordkirchen, AerO Coated Fabrics B.V., Tilburg, Netherlands, AerO Holding B.V., Tilburg, Netherlands, NOW Contec GmbH, Waldfischbach-Burgalben, NOW Contec GmbH & Co. KG, Waldfischbach-Burgalben, Convert Vliesveredlung GmbH, Waldfischbach-Burgalben, and Convert Vliesveredlung GmbH & Co. KG, Waldfischbach-Burgalben. The proceeds from the sale of the disposal group amount to €85.3 million. At group level, this results in a gain on sale of the disposal group of €44.0 million.

The gains on deconsolidation of the disposal group are reported under other operating income. The date of initial consolidation or deconsolidation is generally the date on which control is transferred. Any material effects on the financial position, cash flows and financial performance arising from changes in the consolidated group are explained in each case.

3. BASIS OF CONSOLIDATION

The acquisition method is applied to all business combinations. 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.

Any remaining negative difference is recognised immediately in the statement of income.

Shares in the capital and profit/loss 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.

Intragroup revenue, expenses and income and also receivables, liabilities and provisions between group entities are eliminated, as are profits or losses from intragroup transactions if these would impact the financial position, cash flows or financial performance.

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 in profit or loss for the period.

The financial statements of consolidated entities of the Group 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 valid at the entity's registered office.

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

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 are reported separately under non-controlling interests to the extent attributable to non-controlling interests.

Currency translation differences from the elimination of intercompany balances are generally recognised through profit or loss.

The following exchange rates were used:

	Annual average exchange rate		Average exchange rate on reporting date		
€1 =	2023	2022	30/06/2023	31/12/2022	30/06/2022
Belarusian rouble	2.7256	3.3613	2.7395	2.6948	3.5118
Chinese yuan	7.4850	7.0843	7.8739	7.4355	6.9802
Indian rupee	88.7528	83.3227	89.0120	88.1567	82.0327
Israeli shekel	3.8766	3.5762	4.0343	3.7542	3.6321
Polish zloty	4.6274	4.6372	4.4470	4.6858	4.6875
Swedish krona	11.3317	10.4788	11.8150	11.0775	10.7233
South African rand	19.6636	16.8487	20.6443	18.0774	16.9489
Czech koruna	23.7070	24.6433	23.7790	24.1440	24.7440
Hungarian forint	381.1707	374.7233	371.9000	400.3800	396.5300
US dollar	1.0795	1.0944	1.0854	1.0676	1.0401

5. ACCOUNTING POLICIES

The separate financial statements of all domestic and foreign subsidiaries included in KAP AG's consolidated financial statements are prepared in accordance with uniform accounting policies.

Fair value

In IFRS 13 (Fair Value Measurement), the International Financial Reporting Standards provide for largely standardised measurement at fair value, including the necessary disclosures. Fair value is the value that would be received from the sale of an asset or the price that would have to be paid to transfer a liability. 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. They are allocated to hierarchy level 2 if a valuation model is used or the price is derived from similar transactions. Financial assets and liabilities are recognised in hierarchy level 3 if the fair value is significantly determined from unobservable parameters.

When measuring the fair value of a non-financial asset, the Group takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy in accordance with IFRS 13, as described below, based on the lowest level input that is significant to the entire fair value measurement:

– Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

– Level 2: Valuation techniques for which inputs are observable, either directly or indirectly.

– Level 3: Valuation techniques for which the lowest level input is not observable on the market.

The level to which fair value measurement is allocated overall is determined by the lowest level input that is significant to the entire measurement. The different hierarchy levels involve different levels of detail in the disclosures.

Intangible assets

Intangible assets are only recognised if it is likely that the expected future benefit will flow to the entity and the cost of the assets can be reliably measured.

Purchased intangible assets are initially recognised at cost. This includes the purchase price as well as any costs directly attributable to bringing the assets to the condition necessary for them to be capable of operating.

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

Research and development costs are generally expensed as incurred. 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, capitalisation requires the costs to be covered by sufficiently probable future cash inflows.

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

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

Goodwill

Goodwill acquired in a business combination is initially recognised at cost and is measured in subsequent periods at cost less any accumulated impairment losses. Goodwill is measured as the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, over the net assets measured at fair value. If the consideration transferred is less than the net assets measured at fair value of the subsidiary acquired, the difference is recorded in profit or loss immediately following reassessment of the purchase price allocation.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated, from the acquisition date, to each of the Group's cash-generating units that are expected to benefit from the business combination.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. The amount of goodwill disposed of is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

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 measured reliably.

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

In subsequent periods, items of property, plant and equipment are reported using 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.

Leases
As a lessee, the KAP Group generally recognises a right-of-use asset and a corresponding lease liability for each lease. In doing so, it exercises the option to measure the right-of-use asset at an amount equal to the lease liability, adjusted for prepaid or accrued lease payments.

It exercises the exemptions for short-term leases with a term of less than twelve months and leases of low-value assets with an original price of less than €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. Cost comprises the following components: the amount of the lease liability initially recognised; lease payments made before or at the commencement date of the lease; less any lease incentives received and any initial direct costs of the lessee.

Since the KAP Group applies the cost model, right-of-use assets are recognised at depreciated cost less accumulated depreciation and impairment losses. The lease term is generally used as a basis for determining the amount of depreciation unless ownership of the leased asset is transferred to the KAP Group as the lessee by 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 depreciation.

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

The lease liability is subsequently measured 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.

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.

Sale and leaseback
For sale-and-leaseback transactions, it is first assessed whether these constitute a sale within the meaning of IFRS 15 and thus constitute such a transaction. The right-of-use asset is recognised at the proportion of the original carrying amount of the asset that relates to the right of use retained. Only the amount that relates to the proportion of the right-of-use asset not leased back is recognised as a gain or loss. The lease liability is determined using the general procedure described above. If the lease payments agreed are not at market rates or the fair value of the consideration is not equal to the fair value of the asset, additional value adjustments are necessary. When calculating the gain on sale and the carrying amount of retained right-of-use assets, only the factors determining price and value and the purchase price commitments that are virtually certain are taken into account.

Government grants
Government grants are recognised only when there is reasonable assurance that the applicant company will comply with the conditions and the grants will be actually received. Grants are recognised as income on a systematic basis over the period in which the related costs are to be compensated.

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

Impairment of non-current non-financial assets

For intangible assets with a finite useful life, as well as property, plant and equipment, an assessment is made at each reporting date to determine whether there is any indication that the assets may be impaired. If any such indication exists, the recoverable amount of each individual asset is estimated unless an asset generates cash inflows that are not largely independent of other assets or other groups of assets (cash-generating units).

Goodwill acquired in a business combination is allocated to the cash-generating unit that is expected to benefit from the acquisition. Cash-generating units are defined as the groups of companies that operate economically independently. The allocation is made at the end of the period in which the business combination took place.

Goodwill or other intangible assets with indefinite useful lives are tested for impairment annually as of each reporting date – and whenever there is any indication of impairment – by comparing the carrying amount with the recoverable amount at the level of the cash-generating unit. If the CGU's carrying amount 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 proportionately the other assets' carrying amounts. 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 has decreased, the recoverable amount of this asset is 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. Any reversal of an impairment loss increasing the carrying amount to the new recoverable amount determined is limited so that it does not exceed the carrying amount that would have been determined if the asset had been recognised at cost net of depreciation or amortisation. The depreciation or amortisation amounts of future periods are adjusted accordingly.

Other financial assets

Shares in non-consolidated entities are recognised at fair value through other comprehensive income. Changes in fair value are recognised as gains or losses in other comprehensive income.

Deferred taxes

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

Deferred tax assets are recognised on unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred taxes are calculated on the basis of the tax rates that apply or that are expected to apply in the individual countries when the asset is realised. Temporary measurement differences resulting from previous reporting periods are adjusted accordingly in the event of changes in tax rates.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities and they relate to income taxes levied by the same tax authority on the same taxable entity.

Inventories

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

The costs of purchase of raw materials, supplies and merchandise include all directly attributable costs.

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

Inventory risks with respect to storage time and recoverability leading to a net realisable value below cost are taken into account by means of appropriate write-downs. If the reasons for a write-down made in previous periods no longer apply, the amount of the write-down is reversed up to the revised net realisable value.

Other financial receivables and assets
Unless they are derivative financial instruments, other financial 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, they are measured at amortised cost. Appropriate loss allowances are made based on the lifetime expected credit losses. 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 loss is reversed through profit or loss. However, the carrying amount must not exceed the amortised cost that would have been carried had the impairment loss not been recognised.

Receivables from the Group's factoring facilities are recognised as assets in the statement of financial position only if the risks and opportunities associated with the receivables, particularly the credit and default risk, are largely not transferred. Any repayment obligations arising from these are recognised as current financial liabilities.

Income tax assets and income tax liabilities
Income tax liabilities for current and previous periods are recognised as liabilities at the amount still payable. If the advance payments exceed the amount owed, the difference is recognised as an income tax asset.

Assets classified as held for sale and discontinued operations as well as disposal group
Non-current assets and/or disposal groups, as well as liabilities associated with non-current assets and disposal groups, are classified as held for sale if the relevant carrying amounts will be recovered principally through sale transactions and not through continuing use.

These non-current assets and/or disposal groups are recognised on the reporting date at the lower of their carrying amount and fair value less costs to sell. They are reported separately from other assets in the statement of financial position. Liabilities associated with non-current assets and disposal groups classified as held for sale are presented 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 using the 2018 G Heubeck mortality tables. The obligations are calculated using the projected unit credit method. In addition to the pension entitlements already vested 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 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 unwinding the discount on pension provisions and the return on 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 operating segment concerned, the most important locations, the number of employees concerned, the costs and the date of implementation, and requires that the entity has raised a valid expectation in those affected that it will carry out the measure by starting to implement it or announcing it to those affected.

Share-based payments
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 granting of virtual shares. The share-based payment is accounted for in accordance with the requirements 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 or loss. The fair value is determined using an accepted valuation technique.

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, they are measured at amortised cost using the effective interest method.

Lease liabilities are recognised at the present value of the minimum lease payments. The resulting finance cost is 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 direct the use of the transferred goods or services and obtain substantially 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 using either the expected value or the most likely amount.

The period between the payment by the customer and the transfer of goods or services to the customer is one year or less. As permitted by IFRS 15.121, the transaction price allocated to such unsettled performance obligations is not disclosed. 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 costs of obtaining a contract. Since the term of contracts for which costs of obtaining a contract are incurred and the corresponding amortisation period for such costs is one year or less, costs of obtaining a contract are not capitalised but recognised as an expense.

Revenue from the sale of goods: revenue from the sale of goods is recognised at the delivery date because control is transferred to the customer at this point in time. The right to payment exists at the delivery date.

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 upon 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 are identified separately as belonging to 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 point in 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 percentage of completion). The right to payment arises after the provision of a service when an invoice is issued. Typically, no variable payments are agreed. In the case of advance payments, contract liabilities are recognised.

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 profit/loss for the period attributable to the ordinary shareholders of the parent company (consolidated profit/loss of KAP AG shareholders) by the average number of ordinary shares outstanding in the reporting period.

Estimates

Preparing consolidated financial statements requires estimates to be made for various items that can affect the recognition and measurement of assets, liabilities, financial instruments, expenses, income and contingent liabilities. The actual amounts may deviate from the estimated amounts. The carrying amounts 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 determining lease terms and the incremental borrowing rate of leases, in 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 KAP Group's interim consolidated financial statements.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. ASSETS AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

The assets classified as held for sale amounting to €1,234 thousand (previous year: €1,075 thousand) concern the commercial property in Stadtallendorf, which is to be sold in 2023. The reason for the planned sale is to concentrate on the core business.

The assets and liabilities reported as a disposal group in the previous year relate to a subsection of the **flexible films** segment. The operating entities to be divested were combined in a disposal group. The entities are CaPlast Kunststoffverarbeitungs GmbH, Nordkirchen, with its investee AerO Coated Fabrics B.V., Tilburg, Netherlands, and NOW Contec GmbH & Co. KG, Waldfischbach-Burgalben. The sale of this disposal group was closed in the second quarter of 2023. The proceeds from the sale of the disposal group amount to €85.3 million. At group level, this results in a gain on sale of the disposal group of €44.0 million, which is reported under other operating income.

Effect of the disposal group on the statement of financial position:

in € thousands	30/06/2023	31/12/2022
Intangible assets	–	–13,675
Property, plant and equipment	–	–17,444
Deferred tax assets	–	–189
Inventories	–	–11,004
Trade receivables and other assets	–	–5,128
Cash and cash equivalents	–	–1,181
Total assets	–	–48,620
Assets of the disposal group	–53,243	48,620
Deferred tax liabilities	–	–1,220
Other non-current liabilities	–	–1,682
Current provisions	–	–2,025
Current financial liabilities	–	–625
Other current liabilities	–	–6,599
Total liabilities	–	–12,150
Liabilities of the disposal group	–11,550	12,150

In the current financial year, earnings from discontinued operations include income from released contingent liabilities of €643 thousand (previous year: €579 thousand). This income relates to 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. DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES

Depreciation, amortisation and impairment losses include impairment losses of €6.9 million. These relate to the **surface technologies** segment and are due to a fire at the plant in Stanowice, Poland. The insurance indemnification expected to be received is included in other operating income.

9. EQUITY

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

10. EVENTS AFTER THE REPORTING PERIOD

In agreement with Mr Eckehard Forberich, the Supervisory Board decided on 7 August 2023 to part company with Mr Eckehard Forberich as member and Spokesman of the Management Board of KAP AG.

In addition, KAP AG adjusted its full-year guidance forecast on 21 August 2023. Accordingly, significantly lower revenue and significantly lower normalised EBITDA are now forecast for the full year 2023, in each case with an expected year-on-year deviation in the low double-digit percentage range. To date, revenue and normalised EBITDA were expected to be slightly above the previous year.

There were no further significant events after the reporting period to report up to 29 August 2023 (the date of approval for publication by the Management Board).

11. 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 change in cash and cash equivalents due to exchange-rate, consolidated-group and valuation effects is generally eliminated and reported separately.

Cash and cash equivalents comprise the cash and cash equivalents reported in the statement of financial position 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.

12. SEGMENT REPORTING

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

For reasons of transparency, a distinction is made between the **engineered products**, **flexible films**, **precision components** and **surface technologies** segments in the KAP Group.

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

The segment profit/loss is defined as segment EBITDA (earnings before the financial result, income taxes and depreciation, amortisation and impairment losses).

At group level, segment EBITDA corresponds to the EBITDA of the Group.

13. CONTINGENT ASSETS AND LIABILITIES

There is a contingent liability from ongoing tax proceedings at our subsidiary MEHLER ENGINEERED PRODUCTS INDIA PRIVATE LIMITED, Bangalore, India. The local tax authorities are currently processing the information and documents we have provided. As insufficient data is available, it is currently not possible to accurately estimate the amount. This does not constitute a material event for the Group that could jeopardise it's ability to continue as a going concern.

14. REVIEW OF THE CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS

The condensed half-year consolidated financial statements and the interim group management report were neither audited by a public auditor nor subject to a review (section 115 (5) of the German Securities Trading Act – WpHG).

SEGMENT REPORTING BY OPERATING SEGMENT

in € thousands	flexible films[1] H1 | 2023	flexible films[1] H1 | 2022	engineered products H1 | 2023	engineered products H1 | 2022	surface technologies H1 | 2023	surface technologies H1 | 2022	precision components H1 | 2023	precision components H1 | 2022
Revenue	**71,330**	**98,654**	**65,123**	**76,380**	**36,621**	**32,503**	**28,063**	**22,185**
EBITDA	9,177	14,023	2,742	5,051	8,289	4,128	1,931	738
Amortisation and depreciation	2,515	3,595	2,831	2,791	14,530	6,260	2,266	1,976
EBIT	6,662	10,428	–89	2,260	–6,240	–2,133	–336	–1,239
Capital expenditure	1,991	2,947	2,823	4,103	10,612	2,749	1,375	3,591
Working capital	35,483	50,284	26,597	41,623	7,592	6,509	10,899	12,016
Employees as of 30 June	492	545	803	887	735	765	611	646

in € thousands	Holding H1 | 2023	Holding H1 | 2022	Consolidation H1 | 2023	Consolidation H1 | 2022	Consolidated profit/loss[1] H1 | 2023	Consolidated profit/loss[1] H1 | 2022
Revenue	**1,197**	**932**	**–1,170**	**–1,241**	**201,164**	**229,413**
EBITDA	38,189	8,028	0	245	60,328	32,213
Amortisation and depreciation	352	363	0	37	22,494	15,022
EBIT	37,837	7,665	0	208	37,834	17,190
Capital expenditure	638	151	0	0	17,439	13,541
Working capital	–41	–616	0	0	80,529	109,817
Employees as of 30 June	61	62	0	0	2,702	2,905

[1] Previous period restated.

RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable accounting standards for interim reporting, we affirm that the interim consolidated 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 includes a fair review of the business performance including the results of operations and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year."

Fulda, 29 August 2023

KAP AG
Management Board

Marten Julius
Chief Financial Officer

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. These statements are based on current estimates and forecasts by the Management Board and on the information currently available to the Management 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 does not always precisely correspond to the total indicated.

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