ENGINEERING EXCELLENCE

ANNUAL REPORT 2019

KEY FIGURES

Selected key figures

		2019	2018 [1]	Change (%)
Group				
Revenue	€ millions	372.8	389.8	–4.3
Normalised EBITDA [2]	€ millions	31.9	38.9	–18.0
Normalised EBITDA margin [2]	%	8.6	10.0	–14.0
Consolidated annual result after taxes	€ millions	–14.1	14.2	>100
Earnings per share	€	–1.82	1.98	>100
Investments	€ millions	17.4	19.0	–8.4
Depreciation and amortisation	€ millions	46.7	25.0	86.8
Cash flow from operating activities	€ millions	35.5	20.7	71.5
Non-current assets	€ millions	208.4	222.5	–6.3
Current assets	€ millions	138.3	150.7	–8.2
Equity	€ millions	161.0	192.0	–16.1
Equity ratio	%	46.5	51.5	–9.7
Non-current liabilities	€ millions	106.8	90.1	18.5
Current liabilities	€ millions	78.8	91.2	–13.6
Employees		2,809	2,974	–5.5
AG				
Net profit for the year	€ millions	–5.3	8.9	>100
Total dividend payout	€ millions	0.0	15.5	–100.0
Number of shares (31/12)		7,760,353	7,760,353	0.0
Dividend per share	€	0.00	2.00	–100.0

[1] Adjusted due to error correction.
[2] See overview of special items and non-recurring effects.
[3] Normalised EBITDA/revenue.

OUR SEGMENTS

ENGINEERED PRODUCTS

		2019	2018[1]	Change (%)
Revenue	€ millions	150.7	169.1	–10.8
Normalised EBITDA[2]	€ millions	2.4	12.8	–81.2
EBITDA margin[3]	%	1.6	7.6	–78.9
Employees		948	1,046	–9.3

[1] Adjusted due to error correction.
[2] EBITDA before write-downs of inventories and severance payments (previous year: adjusted for severance payments).
[3] Normalised EBITDA/revenue.

FLEXIBLE FILMS

		2019	2018	Change (%)
Revenue	€ millions	89.2	88.4	0.9
EBITDA	€ millions	10.1	9.1	11.0
EBITDA margin	%	11.4	10.3	6.6
Employees		326	326	0.0

SURFACE TECHNOLOGIES

		2019	2018	Change (%)
Revenue	€ millions	64.1	43.2	48.4
Normalised EBITDA[1]	€ millions	13.7	7.5	82.7
EBITDA margin[2]	%	21.4	17.4	23.0
Employees		761	810	–6.0

[1] EBITDA before expenses and insurance settlements arising from fire damage (previous year: goodwill from the acquisition of the Heiche Group).
[2] Normalised EBITDA/revenue.

PRECISION COMPONENTS

		2019	2018	Change (%)
Revenue	€ millions	49.5	67.6	–26.7
Normalised EBITDA[1]	€ millions	3.4	10.8	–68.5
EBITDA margin[2]	%	6.9	16.0	–56.8
Employees		619	630	–1.7

[1] EBITDA before Geiger purchase price adjustment and consulting fees (previous year: no adjustments).
[2] Normalised EBITDA/revenue.

IT/SERVICES

		2019	2018	Change (%)
Revenue	€ millions	23.3	22.6	3.1
Normalised EBITDA[1]	€ millions	3.0	2.6	15.4
EBITDA margin[2]	%	12.9	11.5	12.2
Employees		120	124	–3.2

[1] EBITDA in the previous year adjusted for severance payments.
[2] Normalised EBITDA/revenue.

€372.8 MILLION	€31.9 MILLION	+8.6%
REVENUE	NORMALISED EBITDA	NORMALISED EBITDA MARGIN

KAP AG

ENGINEERED PRODUCTS | FLEXIBLE FILMS | SURFACE TECHNOLOGIES | PRECISION COMPONENTS | IT/SERVICES

KAP – ENGINEERING EXCELLENCE

We are a mid-sized industrial group. Our strategic focus is on profitable segments in attractive markets with sustainable growth potential. With our long-term segment strategy, we systematically drive forward the establishment and development of high-margin industry sectors into market leaders. We offer an optimal mix of the flexibility of a mid-sized company and the economies of scale of an international listed group. This benefits our segment companies, our customers and our shareholders.

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THE MANAGEMENT BOARD

Dr Alexander Riedel,
CFO

– Responsibilities: Finance, Legal & Compliance, IT, Investor Relations
– Member of the Management Board since May 2018

Previous positions:
– Member of the Management Board at a market leader in textile mechanical engineering
– Chief performance officer for consulting, member of the European Advisory Board, senior partner at Big Four accountancy company
– Chartered accountant, certified tax advisor, Six Sigma Black Belt

Eckehard Forberich,
Member and Spokesman of the Management Board

– Responsibilities: Strategy, Business Development, Controlling, M & A, Personnel
– Member of the Management Board since March 2020

Previous positions:
– Partner at management consultancy Roland Berger
– Managing director at automotive supplier Uniwheels
– Member of the Management Board at Deutsche Steinzeug Cremer & Breuer AG
– Investment banking associate at Deutsche Bank AG

LETTER TO OUR SHAREHOLDERS

DEAR SHAREHOLDERS,

The 2019 financial year was a challenging year for our Group, particularly in the second half. Slowing economic momentum and the drastic fall in demand from customers from the automotive sector impacted the KAP Group's development. After we had revised our forecast in June and adjusted our expectations for the Group in November, at €372.8 million (previous year: €389.8 million) revenue was in line with our revised forecast and at €31.9 million (previous year: €38.9 million) adjusted EBITDA was slightly above it. The EBITDA margin falling by 1.4 percentage points to 8.6% meant we did not, however, achieve our minimum target return of 10%, despite the early introduction of comprehensive optimisation and efficiency programmes in the segments affected by the economic downturn. We therefore cannot be satisfied with our business development in the 2019 financial year.

In the last year we have, however, shown that we have a well-diversified investment portfolio that at least partially cushions against negative market developments. Operating development in our five segments was extremely varied. The engineered products and precision components segments were particularly affected by lower call-off figures from our customers in the automotive sector. By contrast, our flexible films, surface technologies and it/services segments developed positively. Revenue in the surface technologies segment developed positively as a result of the inclusion of the Heiche Group. We are very glad that none of our employees were harmed in the fire affecting this segment at Heinsdorfergrund on 26 June. The losses resulting from the fire are expected to be compensated by the insurance compensation.

In the current 2020 financial year, we are going to work intensively on improving our operating performance, particularly in the engineered products and precision components segments. We have already introduced comprehensive measures for this and want to implement the majority of them in 2020. Further details are provided in the "Events after reporting period" section on page 67 of the Group management report.

Our overarching segment strategy remains unchanged. We want to continue to occupy markets that are high-growth and disproportionately profitable for our Group and develop our five highly specialised segments into market leaders in these areas. We want to grow with this segment strategy and position our business as an industrial group in attractive niche markets. In 2020, we plan to continuously develop our segments through targeted investments and optimisations. We will also expand our research and development activities in connection with this. Increasing profitability is the clear strategic focus in all of this.

Unfortunately, it is not possible for us to provide a concrete outlook for 2020 at the current time due to the current coronavirus crisis. In view of the high level of economic uncertainties in connection with the further spread of the COVID-19 pandemic and the resulting challenges, though, we expect a considerable negative impact on revenue, earnings and liquidity. The background to this is, in particular, the numerous temporary production shutdowns in the automotive sector. We took immediate action to counteract and mitigate this situation. This includes people working from home in large parts of the Group and reduced working hours at some of the sites in Germany. We are also focusing on increased cost discipline. Based on the information currently available, the KAP Group's revenue and earnings performance in the financial year is expected to decrease significantly. In light of this, together with the Supervisory Board, we have decided to propose the suspension of the payment of a dividend for the 2019 financial year at the Annual General Meeting (previous year: €2.00 per share). Nevertheless, we stand by our long-term dividend policy and are viewing this proposal through the lens of sustainable performance for our shareholders.

We are maintaining our active role on the capital market and will communicate transparently on current business developments and all measures we plan to take or implement in response to the coronavirus crisis and for the purpose of the planned increase in the KAP Group's profitability. We will also provide a more concrete 2020 forecast as soon as the impact of the coronavirus can be better assessed.

We would like to thank you for your confidence in our Group, particularly in these challenging times. You can rest assured that we will not lose sight of our long-term goals and will use the current year to set a decisive course for the sustainable success of the KAP Group.

Best regards,

Eckehard Forberich
CEO

Dr Alexander Riedel
CFO

SUPERVISORY BOARD

Christian Schmitz,
Chairman
(Chairman from 8 May 2018, member of the Supervisory Board since 17 December 2016)
Managing Director of The Carlyle Group,
London, United Kingdom
Other mandates:
CANAVERAL HOLDCO LIMITED, London,
United Kingdom [2]
Mehler AG, Fulda, Germany [1]

Fried Möller,
Deputy Chairman
Diplom-Kaufmann (Certified Business Administrator),
Stadtallendorf, Germany
Other mandates:
Mehler AG, Fulda, Germany [1]
KAP Textile Holdings SA Ltd., Paarl, South Africa [2]

Joachim Coers
(from 3 July 2019)
Nonnenhorn, Germany
No other mandates

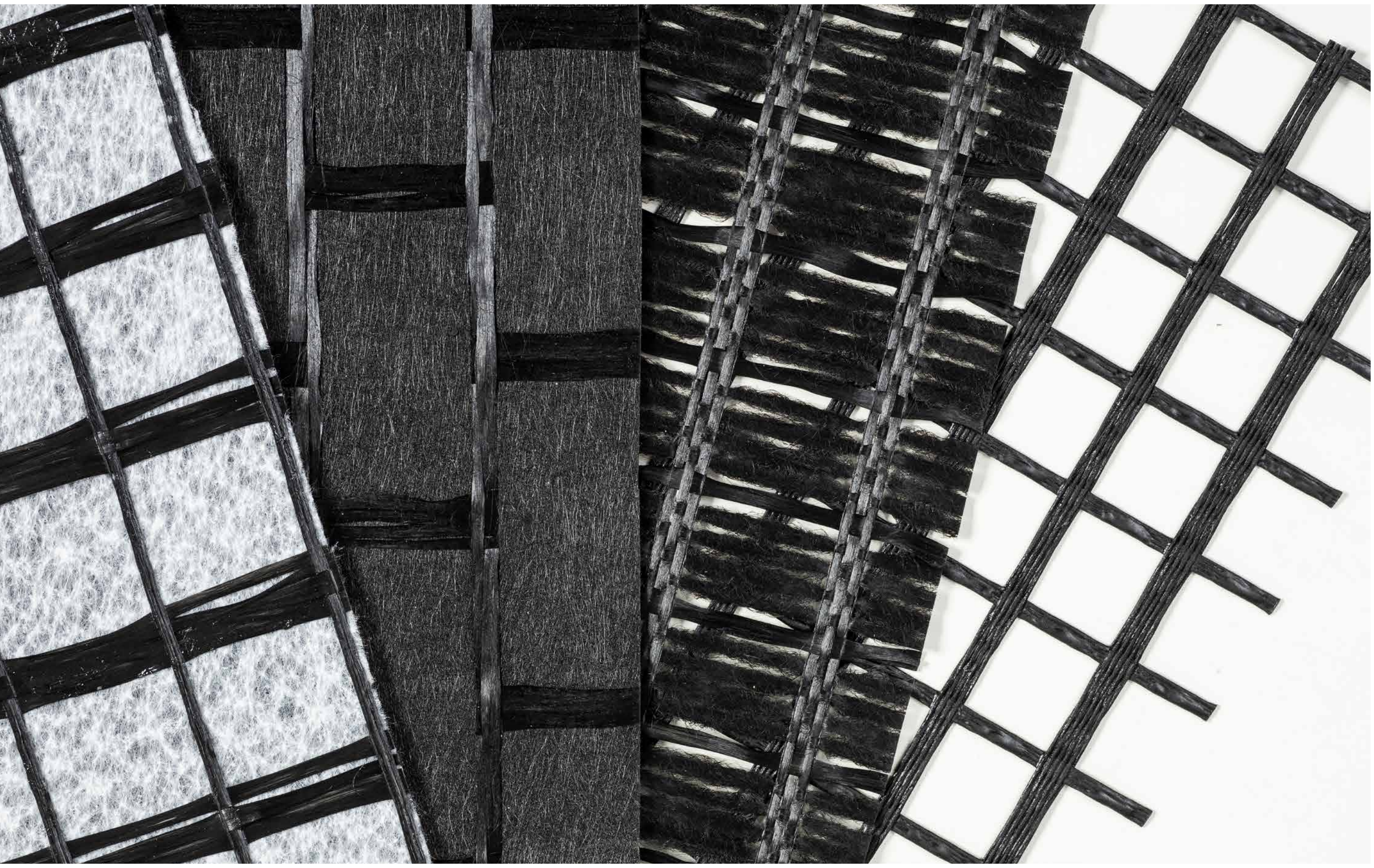
Pavlin Kumchev
(until 28 February 2019)
Associate Director of The Carlyle Group,
London, United Kingdom
Other mandates:
Project Light Topco Ltd., London,
United Kingdom [2]

Uwe Stahmer
(until 30 September 2019)
Business Administrator,
Bad Zwischenahn, Germany
Management Consultant
No other mandates

Roy Bachmann
Diplom-Kaufmann (Certified Business Administrator),
Managing Director of RB Capital Partners LLP,
London, United Kingdom
No other mandates

[1] Membership of domestic supervisory boards required by law.
[2] Membership of similar domestic and foreign supervisory bodies.

ENGINEERED PRODUCTS



€150.7 MILLION

Revenue

€2.4 MILLION

Normalised EBITDA [1]

948

Employees

In our engineered products segment we are one of the world's leading manufacturers of technical textiles.

In the engineered products segment, we develop, produce and sell technical fabrics and threads with chemical and physical conditioning that provide the characteristic performance of our customers' products all over the world.

[1] EBITDA before write-downs of inventories and severance payments (previous year: adjusted for severance payments).

Christian Meunier
At KAP since 2019
Expertise: global sales, business development, specialist in textiles for MRG technical and engineering expertise

Martin Herrmann
At KAP since 2019
Expertise: development and implementation of restructuring programmes, operations

3 QUESTIONS
for Heads of Segment Martin Herrmann and Christian Meunier

Mr Herrmann, how do technical textiles determine the end product's functions?

Our segment company, MEHLER, offers a broad spectrum of technical textiles, threads and fabrics. Our product portfolio includes technical twines, soft and stiff cords, and fabrics that are specially geared to the customer's individual requirements.

Technical textiles are used in a broad range of areas, including manufacturing, mobility, the construction industry, agriculture and medical technology. For example, they're used as a reinforcing support in rubber products or as carrier materials for coated products. Our products aren't visible in most end products, but their contribution of textile reinforcement is essential.

So technical textiles are a complex technology product?

Yes, textile reinforcement is a complex technology product. Mehler EP's expertise begins with the selection of the adapted textile raw material. That's why we regularly test various raw materials in our laboratories in Portugal and Fulda.

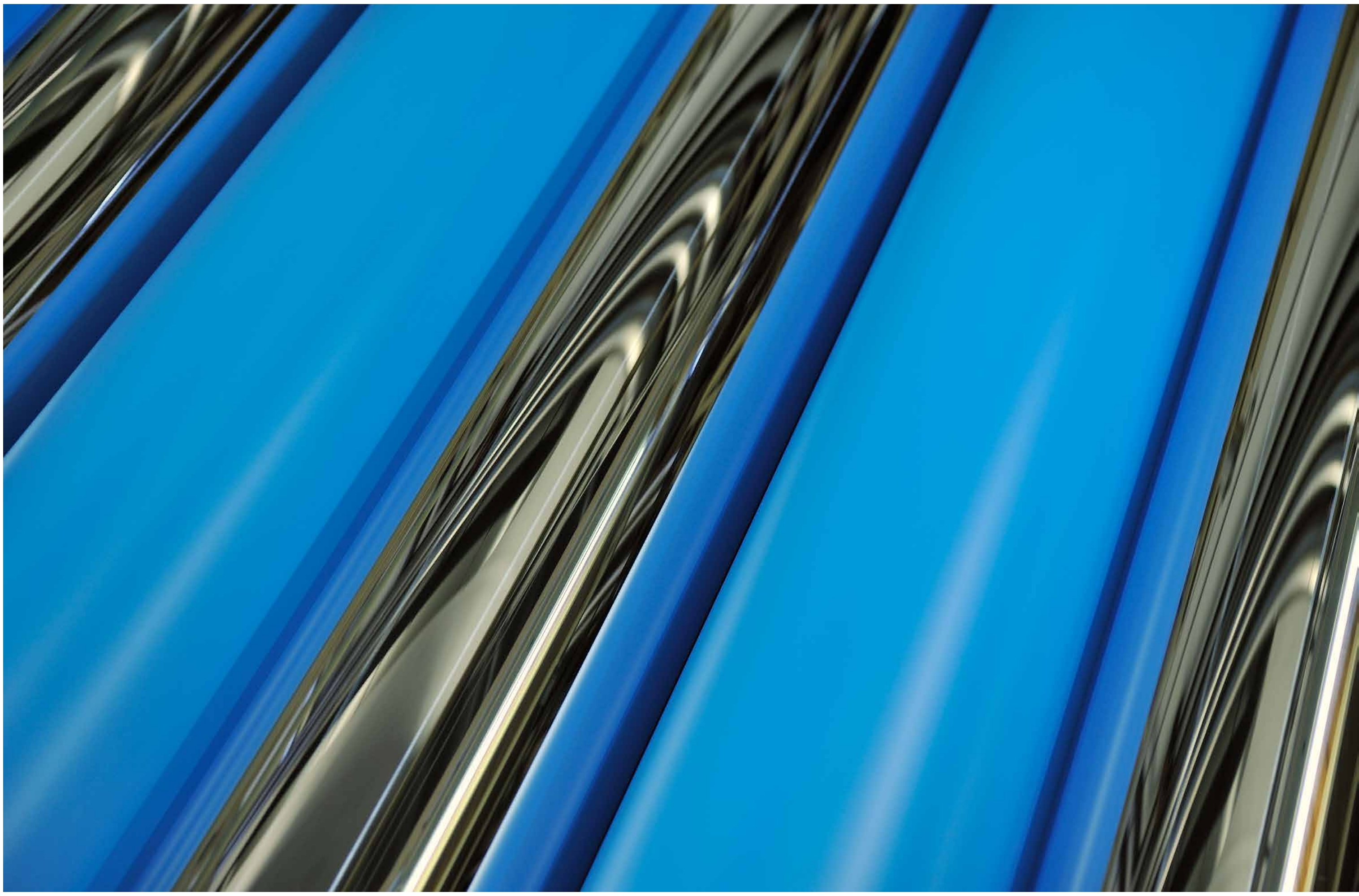
Thanks to its strong global presence, MEHLER has contacts with almost all the world's raw-yarn manufacturers. We work closely with manufacturers to optimise the raw materials according to our needs and our customers' individual requirements. Then there's the question of correct construction. It doesn't matter whether it's a thread or a fabric, it plays an important role in manufacturing the product in the economically and technically optimal way. We're guided by the area of application and the technical requirements in each case.

The final and decisive step is mostly the finish. Many of our products are chemically treated to achieve a specific surface durability or optimum adhesion to the rubber compound. Our customers' increasingly high durability requirements for products in the automotive sector or manufacturing make the adhesion issue increasingly important. We've got a development laboratory and measurement methods that make it possible to assess the static and dynamic adhesion, and develop adapted adhesion solutions. To prevent environmental damage, we also develop solutions that are more environmentally friendly and use less energy.

How do you plan to compensate for the weakness in the automotive sector, Mr Meunier?

MEHLER has been an important manufacturer of reinforcing supports for the automotive industry for many years. The quality of our products and the collaboration with the most important automotive industry suppliers have created an important position in original equipment for us.

The sector is now facing a major change. This creates opportunities and risks for us. We're constantly working on new products and on the use of different raw materials. We also identify possible additional applications for textile in the automotive sector. These include carbon, glass and smart fabrics. In addition, we want to expand our presence in industrial applications – wherever a combination of textile and chemistry can be a technical answer.



FLEXIBLE FILMS

We are one of the leading specialists for extrusion coatings in Europe and the market leader in membranes, tarpaulins, swimming pool liners and high-end projection screens.

In addition to flexibility, our demanding customers from the sectors of energy-efficient construction systems, design-oriented swimming pool liners, entertainment, medical technology or digital imaging are primarily interested in functionality.

€89.2 MILLION

Revenue

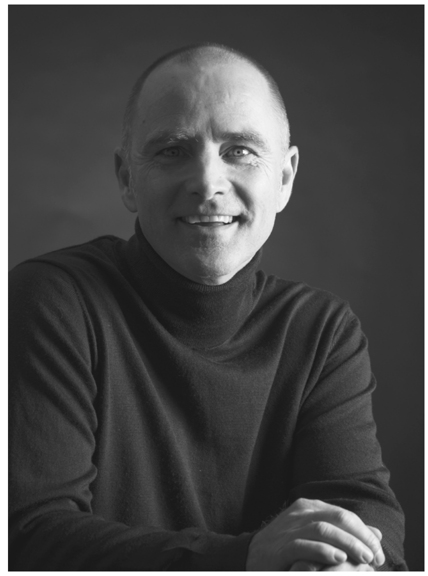
€10.1 MILLION

EBITDA

326

Employees

3 QUESTIONS
for Head of Segment Frederik Schaefer



Frederik Schaefer
Head of Segment
flexible films
At KAP since 2008
Core expertise:
internationalisation,
product roll-outs,
chemistry and innovation
expertise, sales

Mr Schaefer, what do swimming pool liners and cinema screens have in common?

They're products from market-leading companies and are outstanding in their quality and longevity – that is, when they come from KAP flexible films.

KAP flexible films is a market leader in both application areas. But much more importantly, both areas of application require the highest standards in terms of appearance and quality. Our market position is no accident, because KAP flexible films meets these requirements outstandingly. In addition, both areas of application are growing dynamically and are highly innovative. Here too, KAP flexible films' performance and innovation pay off. One example of this is the development of Elbe Royal, a premium pool liner with a 3D surface and a soft touch, which will set standards in pool construction. In event screens too, we were able to successfully complete an innovation together with our market-leading customer: the highest picture quality in rear projection, coupled with environmentally friendly raw materials and the highest standards in fire protection. So, at first glance, they don't have a lot in common, but a second look shows that both are areas of application that spur on our spirit of discovery every day and where we'll also continue to grow.

Do extrusion coatings also play an important role in thermal insulation and energy efficiency?

Absolutely! Ensuring energy efficiency, for example in buildings, not only requires good and sufficient insulation but, in particular, products that ensure the insulation won't get damp (because then it loses its insulating effect) and make sure that the air from inside can't escape outside unhindered. In other words, it takes the market-leading, certified and award-winning products and systems of KAP flexible films – underlays, air and vapour retarders, and barriers. It's no wonder that KAP flexible films works closely together with market-leading companies from the insulation industry and creates added value in the insulation manufacturer's system with tailored, extrusion-coated system solutions.

What additional areas of application would you like to open up?

KAP flexible films operates in highly attractive niche markets and these are clearly defined. In the field of tarpaulin materials, in particular for agricultural applications, we see very high potential to productively use our technological diversity and, above all, our expertise in the extrusion of sustainable thermoplastics for existing and future customers. We've gone down a very successful path in the field of transport protection with an important OEM. Here, it's about sustainable solutions where we first plan very high use of biopolymers with 100% recyclability, so we can then in a second step use very high quality solutions that are 100% biodegradable. But we're also experiencing increasing popularity in the field of flooring products in a very special niche market where the market leader is one of our most loyal customers.

SURFACE TECHNOLOGIES

We have succeeded in building a leading position in the market for surface technologies.

In our newest segment, the surface technologies segment, we develop highly specialised surface solutions for metallic materials for our customers and implement these in highly efficient processes for a wide variety of end markets, such as the food industry, furniture, mechanical engineering, the electrical industry and mobility.

€64.1 MILLION

Revenue

€13.7 MILLION

Normalised EBITDA[1]

761

Employees

[1] EBITDA before expenses and insurance settlements arising from fire damage (previous year: goodwill from the acquisition of the Heiche Group).

3 QUESTIONS
for Head of Segment Nicolai A. J. Baum

Nicolai A. J. Baum
Head of Segment surface technologies
At KAP since 2017
Core expertise: process and technology know-how, implementation of growth strategies, sales

Mr Baum, your segment is the newest in the KAP Group. Four acquisitions were integrated within a very short period of time. How did you manage that?

The aim of KAP surface technologies is to acquire strong, solvent companies that are leaders in their field and are primarily available for acquisition due to succession problems. That means we always integrate functioning companies with strong senior management and a successful management team, though any additional personnel expenses on the part of KAP surface technologies are eliminated. Under the motto "never change a running system", all KAP surface technologies sites continue to be run like an SME, so any integration into the holding company almost happens silently.

The main focus is on the targeted use of synergy effects. Sales, marketing, purchasing and also accounting are centralised to comprehensively exploit any know-how and also best-practice approaches. Furthermore, value-oriented corporate governance is accelerated with the clear goal of implementing standardised rules of procedure with a standardised code of conduct and a structured compliance policy. You can ultimately see the results of this in our very recently established, highly efficient and therefore successfully working group, which is based on a strong, highly motivated team.

How are you getting along with restoring production capacity?

In 2020, KAP surface technologies is investing an amount well into the double-digit millions in the rebuilding and new construction of zinc and zinc alloy coating capacity in barrel and rack processes. At the Poland site, we're planning one of Europe's biggest and most innovative coating plants.

An unrivalled, fully automated electroplating line will be created with automated dosage of chemicals and full traceability of all processes and procedures to ensure the zero-error strategy. The start of the mega plant's production is already planned for the second half of this year. At the same time, another coating line in the barrel process is being implemented for micro parts at the site in Döbeln in Saxony. The site will primarily finish nuts, bolts and fasteners of all kinds for the automotive and furniture industries with zinc nickel. The start of production for the barrel plating should be in the first half of 2021.

If we manage this – and I'm completely convinced that we will – we'll beat all conceivable records.

Coatings are playing an increasingly important role in many products. In what areas of application do you see the biggest growth opportunities?

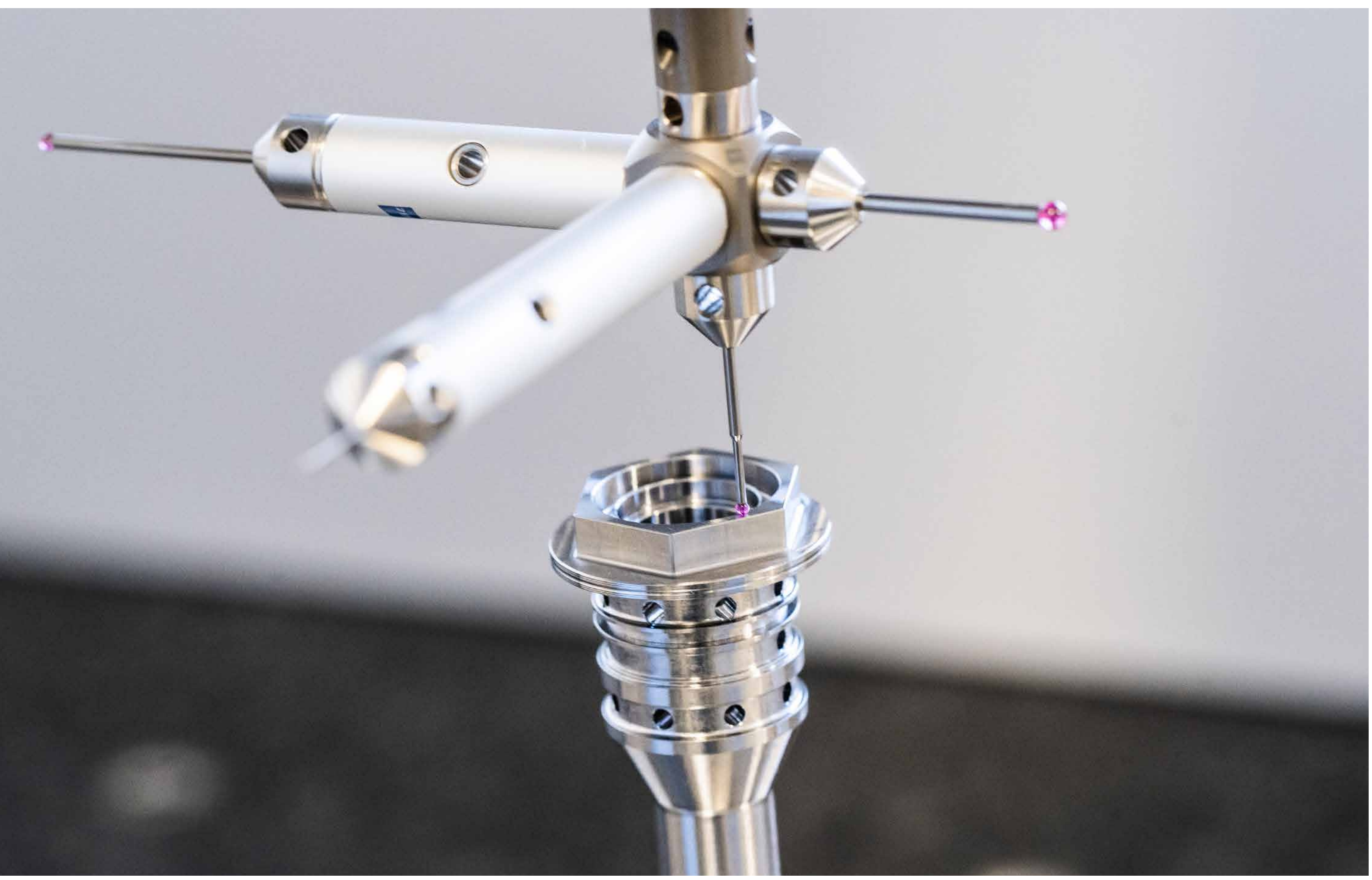
The sector is very fractured and consists of many small and micro-businesses, which often have to contend with succession problems or investment backlogs. However, this is precisely what holds further potential for us, which is why we'll continue to grow significantly and are very interested in integrating further companies.

Many branches of industry need electroplating technology. Without this key industry, most products would rust, wear rapidly or not shine. The low production costs and the enormous increase in the final product's value as a result of our (barely 10 micrometres = 1/100 of a millimetre thick) coating mean we'll continue to be in high demand everywhere worldwide. We see great potential not only in the automotive industry but also in the agricultural and medical technology sectors, in renewable energies and, of course, e-mobility. Our current R & D projects, especially in electromobility fields, underpin our agile sales strategy. In addition to existing technologies such as coating with zinc/zinc alloy, anodisation, direct passivation and hexavalent-chromium-free chrome plating – in some of which we're already among the market and technology leaders – we also see further growth potential and synergies in high-margin field of electroless nickel plating (chemical nickel).

PRECISION COMPONENTS

Through our precision components segment, we are among the high-tech manufacturers of precision components in Europe.

In the precision components segment, we develop tailor-made solutions for special electric and electromechanical drives on the basis of plastics or plastic-metal compounds. Our high-precision gears and related metal products include key components in e-bikes.



Dr Hartmut Sauer
Head of Segment
precision components
At KAP since 2019
Core expertise:
value-oriented management,
decision-making and responsibility,
strategic vision,
engineering and sales

€49.5 MILLION

Revenue

€3.4 MILLION

Normalised EBITDA[1]

619

Employees

3 QUESTIONS
for Head of Segment Dr Hartmut Sauer

Dr Sauer, you intentionally avoided contracts with a low margin in the 2019 financial year. For what reason?

Even though the automotive market environment is challenging at the moment, we don't take on every contract. We've set ourselves clear goals for growth, profitability and liquidity, which is in keeping with the KAP Group's strategy. We first carefully evaluate the contract and check its contribution margin based on our calculations.

Like in previous years, we didn't take on any contracts in 2019 that fell below a lower price limit defined by us. We're keeping an eye on our sustainable goals and in particular concentrating on improving profitability.

Where specifically are your gears used in the automotive sector or e-mobility?

Our portfolio includes plastic gears that are sprayed onto metal shafts and related metal products that are used particularly in special electric or electromechanical drives. There's already a large number of areas of application for our high-precision gears. They're used, for example, in the seat or steering wheel adjustment or in the wiper motor.

Our metal shafts also increase efficiency in e-mobility applications, such as in e-bikes. The electric bicycle market continues to grow at speed, partly as a result of increased demand for freight bicycles, which are replacing the car for many purposes, particularly in major cities. We see further exciting growth opportunities for our Group in the field of e-mobility. We're going to exhibit at EUROBIKE in September 2020 to further increase awareness of our products and explore possible new uses.

In what other areas do you see potential for your precision components?

Our unique technological know-how acquired over many years means we have a broad range of solutions as a producer and supplier, and as a partner we also take on important tasks for our customers in the development of innovative drive solutions.

We want to use our strong position in existing markets and enter further markets with our high quality standards. Broadening our areas of application diversifies our business. We are currently particularly investigating the use of our products in the field of medical technology and in the field of white goods, such as in small gears in coffee machines or in metal shafts of washing machines.

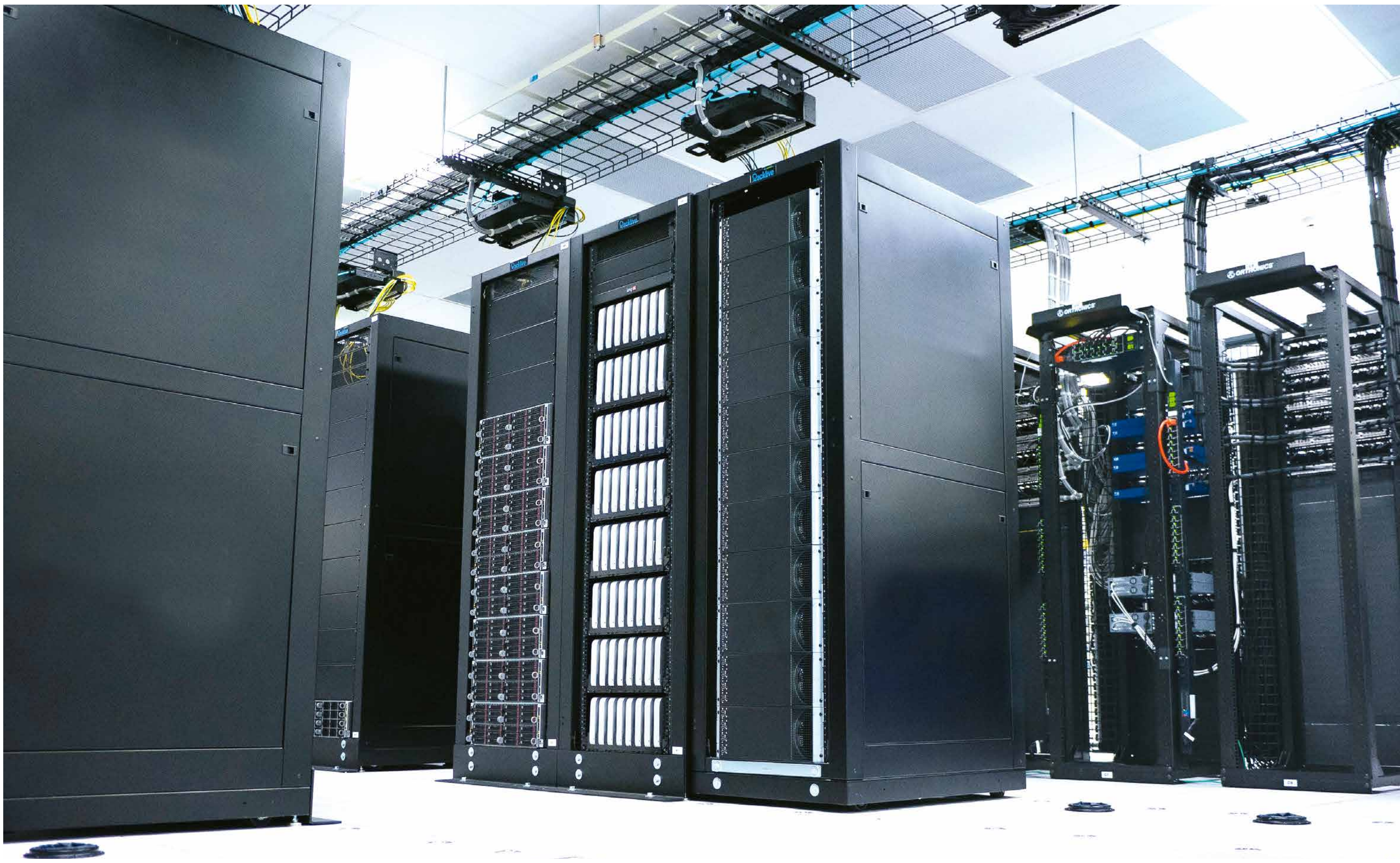
[1] EBITDA before Geiger purchase price adjustment and consulting fees (previous year: no adjustments).

€23.3 MILLION
Revenue

€3.0 MILLION
EBITDA

120
Employees

IT/SERVICES



We have turned ourselves into one of the leading service providers in Europe for open-source solutions and engineering services with our software solutions and services.

In the it/services segment, we combine the know-how of software development and engineering services. We develop open-source software solutions, services relating to the use of machines, innovative digitalisation and Industry 4.0 solutions.

3 QUESTIONS
for Head of Segment Michael Kienle

Michael Kienle
Head of Segment it/services
At KAP since 2001
Core expertise:
IT specialist, implementation of growth strategies, M&A and integration experience

Mr Kienle, what are the advantages of linking information technology (IT) with operational technology (OT)?

Especially for our customers in the field of manufacturing, I see major advantages as a result of a coordinated and comprehensive offering. This holds as early as in the sales stage: as a result of the collaboration of IT-NOVUM and our internal company MES and their product portfolio in the field of operational technology (OT), we are able to get into conversation with some customers much better and can display our unique selling points. Our customers in manufacturing want us to also be familiar with production issues. At the end of the day, the plant manager wants to ensure that production continues seamlessly. But some of their machinery is often so old that data simply isn't available. This means the machines first need to be retrofitted before we can collect data to then analyse it in a second step. After all, there's valuable knowledge here.

To describe it from a manufacturing company's point of view: the combination of OT and IT makes it possible to develop from the traditional evaluation of historical data via predictive analytics to the optimisation of complete factories (operational equipment efficiency, OEE).

What role does digitalisation play for you?

For me, digitalisation holds a key role, not just in the manufacturing sector, but also in sectors such as financial services and government. Digital processes are the foundation for being able to realise competitive and savings potential. But in addition, greater proximity to customers and better customer satisfaction can also be achieved.

Let me be more specific: in the manufacturing sector, for example, better requirements planning and higher productivity utilisation, optimised reject reduction (predictive quality) and more precise prediction and planning of maintenance work (predictive maintenance) can be achieved. For the first time, as a result of digitalisation companies can also identify individual parameters in production whose adjustment will help improve quality or save costs. Here too, the important service aspect of digitalisation becomes apparent, because it's not just about offering a better product anymore, but rather better customer service or better product experience are increasingly the priority. And customer benefit can be created here through (related or supplementary) digital services.

Not just your external customers, but also the other segments benefit from your know-how. What role do you play internally?

KAP is taking major steps towards digitalisation. The internal segments benefit from the fact that we've already realised digitalisation projects with major customers for years. That means they don't need to have the necessary know-how available themselves.

We've always been the pioneer regarding digitalisation as KAP's think tank on this topic and are therefore an expert contact for the Group's other subsidiaries. IT-NOVUM and MES offer a holistic view of IT processes, business processes and manufacturing processes, and can combine outstanding technology expertise with decades of business know-how.

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

2019 was a financial year with particular challenges. The economic environment became increasingly difficult, while fire damage in the surface technologies segment and write-downs in the engineered products segment impacted the development of our Group. Together with the Management Board, in light of this we introduced extensive measures to create the basis for sustainable and successful corporate development.

For 2020, we expect a persistently difficult environment for the KAP Group. In particular, the potential and still unforeseeable impact of the spread of the coronavirus pandemic will have a negative effect on business development. Initial countermeasures and mitigation measures have already been introduced.

COLLABORATION WITH THE MANAGEMENT BOARD

The Supervisory Board performed the tasks incumbent on it pursuant to the law, the Articles of Association and the rules of procedure with great care in the 2019 financial year. We regularly advised the Management Board on the management of the Company and monitored its work. This was based on detailed written and oral reports by the Management Board, which were provided in and outside of the meetings of the Supervisory Board. Between the meetings, regular dialogue also took place between the chairman of the Supervisory Board and the Management Board and between the members of the audit committee and the Management Board. The Supervisory Board was directly involved in all decisions of fundamental importance for the Group. We were always comprehensively informed about the Group's business development, intended business policies, the Group's situation, the risk situation and risk management, compliance, corporate planning (including financial, investment, sales and personnel planning) and current topics. Where the Supervisory Board's consent was needed for decisions or measures of the Management Board on the grounds of the law, the Articles of Association or the rules of procedure, we comprehensively reviewed and thoroughly discussed the draft resolutions and adopted a resolution.

SUPERVISORY BOARD MEETINGS AND COMMITTEE MEETINGS

In the year under review, there were a total of five regular meetings of the Supervisory Board and two meetings of the audit committee, which was newly created in July 2019. The members of the Management Board took part in the meetings of the Supervisory Board – unless consultation without participation of the Management Board was considered appropriate on individual topics such as personnel matters of the Management Board – and reported in detail about the progress of business affairs, the current revenue and earnings development, the opportunities and risks of business development, the significant planned or ongoing investments and disinvestments, and the Group's situation overall. All the members took part in the regular Supervisory Board meetings in the 2019 financial year, with the exception of the meeting held on 19 February 2019, which Pavlin Kumchev, who left on 29 February 2019, did not attend. No member of the Supervisory Board took part in less than 50% of all meetings. The meetings had the following focuses:

In the meeting of 6 February 2019, we dealt intensively with the preliminary figures for the 2018 financial year. In addition, the possibility of a sale and leaseback transaction for an industrial property of the KAP Group was discussed.

With the auditor present, we dealt extensively with the 2018 annual financial statements and consolidated financial statements, the management report and the Group management report, the Group's separate non-financial report and the proposal on the appropriation of profits at the meeting of 25 March 2019. The auditor explained the audit reports including the focuses of the audit. In addition, adopted the Declaration of Conformity and voted on the selection of the new auditor. Moreover, the Management Board reported on current M&A opportunities and financing topics.

In the meeting on 25 June 2019, the focus was on the presentation of business development in the first half of the year and the 2019 corporate planning. The Management Board reported in detail about current topics and projects from the individual segments. Furthermore, it presented concrete approaches for possible strengthening of the existing compliance system and for optimisation of the Group-wide IT landscape. The preparation of the Annual General Meeting, the expansion of investor relations activities in connection with the higher requirements of the Prime Standard segment of the stock exchange and remuneration topics were further agenda items.

At the meeting on 26 September 2019, the focus was on detailed reporting on business development and on current projects in every segment of the KAP Group and the KAP Group's strategic direction. This also included possibilities for improving the operating performance in the individual segments. The Management Board also reported on the current corporate planning for the full year.

On 5 December 2019 we met for another Supervisory Board meeting. The focus at this meeting was not only current business development and the planning for the 2020 financial year but also the status quo of possible restructuring measures in the engineered products and precision components segments against the background of significantly worsened market conditions in the automotive sector. We also approved current investment plans in the surface technologies segment.

In addition, there were ten extraordinary meetings of the Supervisory Board, five of which by way of circulation of written resolutions. In these meetings, among other things, investment and disinvestment plans, personnel and remuneration matters, the Group's separate non-financial report, the Supervisory Board's report and the rules of procedure for the audit committee were discussed or adopted.

The Supervisory Board has had a committee in the form of the audit committee since July 2019. It is entrusted with all the tasks specified in section 107 (3) sentence 2 of the German Stock Corporation Act (AktG) and in 5.3.2. of the German Corporate Governance Code in the version of 7 February 2017. In the 2019 financial year, the audit committee particularly dealt with the consolidated half-year report and the interim statement on the third quarter of 2019. At that point, it began reviewing the existing risk-management and internal control systems of the Company. Corporate planning for 2020 and compliance were further topics. The auditor reported on its audit findings in one of two meetings of the audit committee. The committee chairman reported on the meetings and the work of the audit committee at each Supervisory Board meeting.

CORPORATE GOVERNANCE

The principles of good corporate governance are very important to KAP AG and the Supervisory Board. The further development of corporate governance in our Group, not least in light of the substantially revised German Corporate Governance Code draft by the Government Commission, and compliance with the recommendations of the German Corporate Governance Code were a key focus of our auditing and consultancy work in the 2019 financial year. No conflicts of interests for individual members of the Supervisory Board came to light in the past financial year. The Corporate Governance Report contains additional information on corporate governance on page 20.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS

Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Frankfurt am Main, which was appointed as auditor by the Annual General meeting, audited the annual financial statements and consolidated financial statements including the management reports for the 2019 financial year, which were prepared by the Management Board, taking into account the accounting records. The findings showed that the Company complied with the rules of the German Commercial Code (HGB) and International Financial Reporting Standards as adopted by the EU. The auditor did not raise any objections and issued unqualified audit opinions. The Supervisory Board satisfied itself of the independence of the auditor and the persons acting on the auditor's behalf.

The annual financial statements and consolidated financial statements including the management report and Group management report, the proposal for the appropriation of profit, the Group's separate non-financial report and the audit reports of the auditor were audited at meetings of the Supervisory Board on 2 and 22 April 2020 and discussed in detail with the Management Board and auditor. The financial statement documents and the audit reports were available to all members of the Supervisory Board on time and were dealt with in detail at the accounts meeting of the Supervisory Board on 2 April 2020. The auditor reported on the findings of the audit during its deliberations and was available to us for additional questions and information. The key audit matters were a focus. Based on the final result of our own review, we concurred with the findings of the audit conducted by the auditor and did not raise to any objections.

The Supervisory Board approved the annual financial statements of KAP AG prepared by the Management Board and the consolidated financial statements of the KAP Group at the meeting held to adopt the financial statements on 2 April 2020. KAP AG's 2019 annual financial statements are thus adopted. We agree with the Management Board's proposal on the appropriation of retained earnings, which recommends suspension of dividend distribution and carrying forward retained earnings.

CHANGES IN THE SUPERVISORY BOARD AND MANAGEMENT BOARD

Pavlin Kumchev resigned from the Supervisory Board with effect as of 29 February 2019 for reasons of a career change. His successor is Joachim Coers, who was elected to the Supervisory Board as a new member by shareholders at the Annual General Meeting on 3 July 2019. Joachim Coers is a proven industry expert with experience including as chairman of the executive board of Tognum AG and chairman of the management board of MTU Friedrichshafen GmbH. His term in office runs until the end of the Annual General Meeting that passes the resolution on the formal approval of the Supervisory Board's actions for the 2022 financial year.

With effect as of 1 October 2019, the Supervisory Board appointed Supervisory Board member Uwe Stahmer as an interim member of the Management Board. Following the resignation of Spokesman of the Management Board Guido Decker with effect as of 30 September 2019, the Management Board thus consists of at least two persons, as required by the Articles of Association.

The KAP AG Supervisory Board appointed Eckehard Forberich as a new member and Spokesman of the Management Board with effect as of 1 March 2020. On the appointment of the new member of the Management Board, Uwe Stahmer stepped down from his interim position on the Management Board and resumed his position on the Supervisory Board, which had been put on hold while he served on the Management Board. The members of the Supervisory Board would like to thank him for his work as an interim member of the Management Board.

THANKS

The Supervisory Board would like to thank the members of the Management Board, the segment managers, the managing directors of the segment companies and all the employees for their dedication and their achievements in the challenging 2019 financial year.

Fulda, 10 March 2020

For the Supervisory Board

Christian Schmitz
Chairman of the Supervisory Board

CORPORATE GOVERNANCE

The KAP Group's Corporate Governance Report takes account of the recommendations of the German Corporate Governance Code (DCGK) and in particular includes the Declaration on Corporate Governance pursuant to section 289f and section 315d of the German Commercial Code (HGB) and also the remuneration report. The contents of the Corporate Governance Report are also part of the Group management report.

1. DECLARATION ON CORPORATE GOVERNANCE PURSUANT TO SECTION 289F OF THE GERMAN COMMERCIAL CODE (HGB)

The corporate governance of KAP AG as a listed German stock corporation is primarily determined by the German Stock Corporation Act (AktG) and additionally by the requirements of the German Corporate Governance Code as amended.

1. DECLARATION IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The members of the Supervisory Board together with the Management Board recently approved the following Declaration of Conformity pursuant to section 161 of the German Stock Corporation Act (AktG) in March 2019 and then made it permanently accessible to shareholders on KAP AG's website on https://www.kap.de/en/investor-relations/corporate-governance/compliance-statement:

Declaration by the Management Board and Supervisory Board of KAP AG pursuant to section 161 AktG on the recommendations of the "Government Commission on the German Corporate Governance Code" in the version from 7 February 2017, published in the Federal Gazette on 24 April 2017 (hereinafter referred to as "DCGK")

I. In December 2018, the Management Board and Supervisory Board of KAP AG (the "Company") issued a Declaration of Conformity pursuant to section 161 AktG for the period since the submission of the Declaration of Conformity in December 2017 and published it on the Company's website. This Declaration of Conformity is to now be corrected and replaced in its entirety by the following Declaration of Conformity.

II. In the period since the submission of the second to last Declaration of Conformity in December 2017 and since the submission of the last Declaration of Conformity in December 2018, KAP AG (formerly KAP Beteiligungs-AG) has complied with the recommendations set forth in the German Corporate Governance Code of the "Government Commission on the German Corporate Governance Code" (in the version of 7 February 2017, published in the Federal Gazette on 24 April 2017), with the exceptions specified and explained in sections III.1 to III.7 below.

III. KAP AG will in future comply with all recommendations set forth in the DCGK of the "Government Commission on the German Corporate Governance Code" (the version of 7 February 2017 and published in the Federal Gazette on 24 April 2017), with the following exceptions. Where forward-looking statements are made, this Declaration of Conformity partly takes into account the fundamentally revised draft of the German Corporate Governance Code published on 6 November 2018 (hereinafter referred to as "DCGK-E").

1. Section 4.2.1 sentence 2[1] recommends that the Management Board's rules of procedure should in particular govern the allocation of duties among individual Management Board members.

   The Management Board's rules of procedure of 9 February 2018 do not regulate the departmental responsibilities of individual Management Board members. This is because between December 2017, when the Declaration of Conformity was submitted, and May 2018, the Company had only one Management Board member, and because the departmental responsibilities are regulated in the employment contracts of the two Management Board members.

   Because the DCGK-E provides for the deletion of this recommendation, the Company does not intend to amend the Management Board's rules of procedure in this respect.

2. Section 5.1.2 (1) sentence 2 recommends that when appointing Management Board members, the Supervisory Board should take diversity into account. The Supervisory Board shall set targets for the proportion of women to be represented on the Management Board.

   Because the Management Board currently comprises two members, the Company does not yet implement measures to promote diversity when filling executive roles. It was for the same reason that the Supervisory Board had not yet set any targets regarding the proportion of women on the Management Board.

3. Sections 5.3.1, 5.3.2 and 5.3.3 recommend that the Supervisory Board should form committees of members with relevant specialist expertise, in particular an audit committee and a nomination committee, depending on the Company's specific circumstances and the number of Supervisory Board members.

   Since, in the Company's judgement, the five-member Supervisory Board can make decisions quickly and efficiently and therefore does not need to set up committees, no audit committee or nomination committee has so far been formed.

   However, the Supervisory Board does now intend to form an audit committee, and to do so at the latest during the first Supervisory Board meeting after the Annual General Meeting in July 2019. Due to the size of the Supervisory Board, a nomination committee was not formed.

4. Section 5.4.1 (2) recommends that the Supervisory Board should determine specific objectives regarding its own composition and that within the Company's specific situation it should reflect the Company's international activities, potential conflicts of interest, the number of independent Supervisory Board members within the meaning of section 5.4.2, an age limit for Supervisory Board members and a regular limit to Supervisory Board members' terms of office, both to be specified, as well as diversity. It also recommends that a profile of skills and expertise for the entire Board should be prepared. The Supervisory Boards of listed companies to which the German Codetermination Act (Mitbestimmungsgesetz), the German Coal and Steel Codetermination Act (Montan-Mitbestimmungsgesetz) or the German Supplementary Codetermination Act (Mitbestimmungsergänzungsgesetz) apply

[1] Figures without reference to a source are those of the Corporate Governance Code in the version of 7 February 2017.

shall be made up of at least 30 per cent women and at least 30 per cent men. Where other companies covered by the German Equal Opportunities Act (Gleichstellungsgesetz) are concerned, the Supervisory Board shall set targets for the proportion of women.

We have so far diverged from these recommendations because, taking into account the Company's individual circumstances, setting specific objectives for the Supervisory Board's composition and for the process of searching for and selecting suitable Supervisory Board candidates would have placed excessive restrictions on our Company and could have led to the automatic exclusion of potential candidates. To fill positions on the KAP AG Supervisory Board, it was important for the Supervisory Board to, in accordance with the requirements of the German Stock Corporation Act, establish that the candidates concerned had the skills, knowledge and experience required to perform the Board's work. Because the KAP AG Supervisory Board is made up of so few members, KAP AG has so far taken the view that the process of putting together the Supervisory Board should be based primarily on professional suitability, irrespective of gender. KAP AG has therefore so far not set a target figure for the number of female Supervisory Board members. The Company was moreover of the opinion that setting a standard length of service limit for Supervisory Board members was not an appropriate criterion by which to search for or exclude Board members. Rather, and as already mentioned above, the Company feels that selection should be based on knowledge, skills and professional experience.

In March 2019, the Supervisory Board adopted a profile of skills and expertise, objectives regarding the Board's composition and a diversity concept. These can all be viewed in the Investor Relations section of the Company's website.

5. Section 5.4.1 (4) sentence 1 and sentence 2 recommend that proposals made by the Supervisory Board to the Annual General Meeting should take the Supervisory Board's composition objectives into account, while simultaneously aiming at fulfilling the overall profile of required skills and expertise of the Supervisory Board and that the implementation status should be published in the Corporate Governance Report.

   Since no objectives in this regard have yet been set, there were no objectives to take into account for the election proposals made to the Annual General Meeting in 2018. Nor did any implementation status have to be presented in the Corporate Governance Report.

   The election proposals made to the Annual General Meeting in 2019 will take into account the objectives concerning the Supervisory Board's composition and also seek to complete the competency profile adopted for the Supervisory Board as a whole. The implementation status will then be published in the 2020 Corporate Governance Report.

6. Section 5.4.1 (4) sentence 3 recommends that the Corporate Governance Report also provide information about what the Supervisory Board regards as the appropriate number of independent Supervisory Board members representing shareholders and the names of these members.

   Due to the vagueness of the term "independent" and the associated potential for conflict, the independent members of the Supervisory Board are not named in the Corporate Governance Report. Nonetheless, the Supervisory Board considers that it has an appropriate number of independent members.

7. Section 7.1.2 sentence 3 recommends that the consolidated financial statements and the Group management report be made publicly accessible within 90 days of the end of the financial year, and that any financial information required to be provided during the year be made publicly accessible within 45 days of the end of the pertinent reporting period.

   The Company did not submit the consolidated financial statements and the Group management report for the 2017 financial year or the interim financial information in the 2018 financial year within the recommended deadlines, but within the statutory deadlines. Such statutory deadlines will also be deemed sufficient for the 2019 financial year.

KAP AG

Frankfurt, 25 March 2019

The Management Board The Supervisory Board

2. COMPLIANCE MANAGEMENT SYSTEM & CODE OF CONDUCT

Economic success, integrity and social responsibility are objectives of our Group that cannot be separated – irrespective of whether we or companies controlled by us operate in Germany, Europe or other parts of the world. Based on awareness of the social, environmental and economic organisation of the entire value chain, we meet the challenges of a networked and global economy. Responsible and ethical conduct towards our employees, business partners and shareholders, and towards the environment is an integral part of KAP AG's system of values. To this end, KAP AG has implemented a compliance management system, and the Code of Conduct is an integral part of this. Our decentralised and formalised compliance management system focuses on the areas of corruption prevention, competition law, sanctions and export control, IT security and data protection.

Compliance refers to compliance with national and international legal requirements and internal rules. We see compliance as a Group-wide measure for compliance with laws and internal policies, and a key element of corporate governance and the corporate culture that must be observed in every area of daily business in the Group. We have defined the basis for this in our Code of Conduct, which is available on https://www.kap.de/en/investor-relations/corporate-governance/code-of-conduct. Compliance with these policies creates the basic prerequisite for confidence by our business partners, shareholders and the general public in the KAP Group's performance, system of values and integrity. The Code of Conduct summarises the most important principles of conduct for all employees, including the Management Board, and sets minimum standards for collaboration characterised by respect within our Group and with our business partners.

In the 2019 reporting year, we rolled out our compliance management system to our newly acquired companies and implemented our values and policies. We also updated the existing policies with regard to the formation of our segments. Our training in the form of e-learning was expanded to the new acquisitions.

3. DISCLOSURES ON CORPORATE GOVERNANCE AND DESCRIPTION OF THE WORKING PRACTICES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

a) Management Board

In accordance with statutory requirements, KAP AG is subject to a "dual governance system". This is characterised by a strict separation of personnel between the Management Board as the management body and the Supervisory Board as the supervision body. The Management Board and Supervisory Board work closely together in the interests of the Group.

KAP AG is headed by two people. After Guido Decker left our Group on 30 September 2019, Uwe Stahmer, who had been a member of the Supervisory Board until this date, was temporarily appointed as a second member of the Management Board until 30 September 2020. His office as a member of the Supervisory Board is suspended during this period. He is responsible for strategy, business development, M&A and controlling. Dr Alexander Riedel is responsible for finance, IT, compliance, investor relations and personnel.

The Management Board's tasks include regular coordination of the Group's strategic direction with the Supervisory Board, implementation of the strategic direction and the exchange information on the implementation status with the Supervisory Board at regular intervals. The Management Board regularly, promptly and comprehensively informs the Supervisory Board of all issues relevant for the Group regarding the Group's business development, financial situation and financial performance, planning and target achievement, the risk situation and risk management. Where the Group's business development diverges from the plans and objectives drawn up, this is explained and justified in detail. The Management Board's reporting also covers compliance topics, i.e. measures for compliance with legal requirements and internal policies. In addition to legal requirements, the Management Board is also bound by the regulations that are set out in the rules of procedure for the Management Board.

The Management Board receives the information needed for corporate governance and decision-making through monthly financial reports from the units and regular conversations with the segment managers and the managing directors of the operating units, and on visits to sites in Germany and abroad. Conversations with banks, competitors and industry representatives are also important sources of information. Where the Group's business development diverges from previously drawn up plans and objectives, this is explained and justified to the Supervisory Board in detail and discussed together with the Supervisory Board. The Management Board's actions and its decisions are guided by the Group's interests. It is committed to the aim of sustainably increasing the value of the company.

b) Supervisory Board

The Supervisory Board has set out its working practices in rules of procedure, which govern, among other things, the conduct of the meetings and the adoption of resolutions on business transactions requiring approval. The Supervisory Board currently consists of five members. The Supervisory Board advises the Management Board on the management of the Company and monitors its activities. The Supervisory Board's tasks are regulated not only by statutory requirements, but also by the Articles of Association and by the rules of procedure.

In the year under review, Joachim Coers was elected to the Supervisory Board as a new member at the Annual General Meeting on 3 July 2019. His mandate ends on the expiry of the Annual General Meeting that passes the resolution on the formal approval of the Supervisory Board's actions for the 2022 financial year. Following the Annual General Meeting, the Supervisory Board decided to form an audit committee and to appoint Joachim Coers as its chairman. The basis for this is Article 11 (2) of the Articles of Association (published on https://www.kap.de/en/investor-relations/corporate-governance/articles-of-association), according to which it is possible to set up committees to which decision-making powers are transferred. In view of the size of the full Supervisory Board, the audit committee currently consists of two members, the committee chairman and Christian Schmitz. The Supervisory Board also adopted rules of procedure for the audit committee, which set out the rules on collaboration within the committee and with the full Supervisory Board. The rules of procedure are available on https://www.kap.de/en/company/boards-1/supervisory-board.

The collaboration between the Supervisory Board and Management Board is in a spirit of mutual trust and based on regular exchange of information. In addition to the Supervisory Board meetings prescribed by law, figures are regularly provided and important developments and incidents are discussed by telephone between the meetings. Additional information on the collaboration of the Management Board and Supervisory Board can be found in the report of the Supervisory Board on page 16 et seq. of the 2019 Annual Report.

4. DISCLOSURES ON THE SETTING OF TARGET VALUES IN ACCORDANCE WITH SECTION 289F (2) 5 OF THE GERMAN COMMERCIAL CODE (HGB) IN CONJUNCTION WITH SECTIONS 76 (4) AND 111 (5) OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The Supervisory Board and Management Board have not set any minimum ratios for their inclusion of women and men on each board pursuant to section 76 (4) and 111 (5) of the German Stock Corporation Act (AktG). The Supervisory Board presents its reasons for this in the above Declaration of Conformity in section 5.4.2. (1) DCGK.

There is no information as to the compliance with the minimum ratios because KAP AG does not have any employees and therefore pursuant to section 96 (2) and (3) AktG no minimum ratios need to be complied with.

2. CORPORATE GOVERNANCE

The term corporate governance describes responsible and value-creating governance and control of the company. The key elements comprise the collaboration between the Management Board and Supervisory Board, consideration of shareholders' interests, and open and transparent corporate communication. This not only creates transparency for the legal framework of corporate management and control, but generally recognised standards for good and responsible corporate governance are also established in it. This strengthens shareholders', customers', employees' and the public's confidence in the Group's management.

In the year under review, the Management Board and Supervisory Board of KAP AG also worked hard on fulfilling the requirements of the German Corporate Governance Code in its version last updated in February 2017 and published in the Federal Gazette and the new version of the German Corporate Governance Code published in draft form on 6 November 2018. The Management Board and Supervisory Board took all measures necessary to comply as far as possible with the recommendations of the code in force until 31 December 2019.

1. GOVERNANCE AND CONTROL STRUCTURE

As a listed corporation with its registered office in Fulda, Germany, KAP AG is subject to the requirements of German stock corporation law, capital market law and codetermination law, and the provisions of its own Articles of Association and internal policies. With its two boards – the Management Board and the Supervisory Board – KAP AG, like all German stock corporations, has a dual management and supervision structure. In addition, the Annual General Meeting is the decisive shareholders' body. Through it, our shareholders participate in fundamental decisions of the Group. Together, these three bodies are equally committed to the interests of shareholders and the well-being of the Group.

2. REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD (REMUNERATION REPORT)

The remuneration report, which is part of the Group management report, describes the fundamentals of the remuneration system for members of the Management Board and explains the structure and amount of individual Management Board remuneration. The report also includes information on benefits that have been promised to the members of the Management Board should their employment end, and information on the remuneration of the Supervisory Board.

a) Remuneration of the Management Board

(i) Responsibility

The structure and determination of the Management Board's remuneration is the responsibility of the Supervisory Board.

(ii) Goals

The remuneration model for the Management Board shall be attractive in the competition for highly qualified leaders. As an incentive for successful work, the variable portion of the remuneration shall be highly dependent on the economic success of the KAP Group. The remuneration structure for the Management Board also has similarities to the remuneration system for employees and managers.

(iii) Remuneration elements

The remuneration of the Management Board includes fixed and variable elements. In successful financial years, the factors that make up the variable element of remuneration enable the KAP Group to offer competitive income for the Management Board with a very high profit-sharing component. EBITDA, among other things, serves as a benchmark for the variable remuneration component. The Supervisory Board reviews the remuneration system with regard to the structure and amount of Management Board remuneration at regular intervals.

KAP AG has maintained a virtual stock option programme with cash settlement since 2017. The programme provides for the beneficiaries to receive an entitlement to cash settlement from the Company when they exercise the options. The entitlement to cash settlement is equal to the difference between the average share price (Xetra trading, Deutsche Börse AG, Frankfurt am Main) of the last 20 trading days prior to exercising the option and the base value of €30 or €33. The entitlement is limited to €40 per option. An adjustment is made for dividend distributions made since the granting of the virtual stock options and any dilution effects in the event of capital increases. On the start of his employment on 1 August 2017, Guido Decker was granted 100,000 virtual stock options that vest over a period of four years on a one-time basis. The exercise date is 31 July 2021. Because capital increases took place between the granting of the virtual stock options and the reporting date, the number of virtual stock options increased to 117,147 (previous year: 119,652). As of the reporting date, the remaining term of the virtual stock options was 19 months until the exercise date. The obligation amounts to €157 thousand (previous year: €249 thousand). Income from the reversal of provisions was €92 thousand in the financial year (previous year: expense of €150 thousand).

Name	Decker, Guido
Function	CEO
Assumption of office	1 August 2017
Left office	30 September 2019

Remuneration granted in € thousands	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	255	255	255	296	296	296
Fringe benefits [1] (company car)	12	12	12	16	16	16
Total fixed remuneration	**267**	**267**	**267**	**312**	**312**	**312**
One-year variable remuneration (incl. compensation)	617	617	617	100	100	100
Total variable remuneration (incl. compensation)	**617**	**617**	**617**	**100**	**100**	**100**
Stock option plan	**–**	**–**	**–**	**–**	**–**	**–**
Total remuneration	**884**	**884**	**884**	**412**	**412**	**412**

Remuneration received in € thousands	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	255	255	255	296	296	296
Fringe benefits [1] (company car)	12	12	12	16	16	16
Total fixed remuneration	**267**	**267**	**267**	**312**	**312**	**312**
One-year variable remuneration (incl. compensation)	717	717	717	100	100	100
Total variable remuneration (incl. compensation)	**717**	**717**	**717**	**100**	**100**	**100**
Stock option plan	**–**	**–**	**–**	**0**	**0**	**0**
Total remuneration	**984**	**984**	**984**	**412**	**412**	**412**

[1] The D&O insurance represents an additional fringe benefit granted.

	Riedel, Alexander, Dr
	CFO
	1 May 2018
	n/a

	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
	312	312	312	208	208	208
	11	11	11	7	7	7
	323	**323**	**323**	**215**	**215**	**215**
	125	0	125	67	67	67
	125	**0**	**125**	**67**	**67**	**67**
	–	**–**	**–**	**924**	**0**	**4,000**
	448	**323**	**448**	**1,206**	**282**	**4,282**

	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
	312	312	312	208	208	208
	11	11	11	7	7	7
	323	**323**	**323**	**215**	**215**	**215**
	60	60	60	0	0	0
	60	**60**	**60**	**0**	**0**	**0**
	–	**–**	**–**	**0**	**0**	**0**
	383	**383**	**383**	**215**	**215**	**215**

Name	Stahmer, Uwe
Function	CEO
Assumption of office	1 October 2019
Left office	n/a

Remuneration granted in € thousands	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	105	105	105	n/a	n/a	n/a
Fringe benefits [1] (company car)	1	1	1	n/a	n/a	n/a
Total fixed remuneration	**106**	**106**	**106**	**n/a**	**n/a**	**n/a**
One-year variable remuneration (incl. compensation)	–	–	–	n/a	n/a	n/a
Total variable remuneration (incl. compensation)	**–**	**–**	**–**	**n/a**	**n/a**	**n/a**
Stock option plan	**–**	**–**	**–**	**n/a**	**n/a**	**n/a**
Total remuneration	**106**	**106**	**106**	**n/a**	**n/a**	**n/a**

Remuneration received in € thousands	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	105	105	105	n/a	n/a	n/a
Fringe benefits [1] (company car)	1	1	1	n/a	n/a	n/a
Total fixed remuneration	**106**	**106**	**106**	**n/a**	**n/a**	**n/a**
One-year variable remuneration (incl. compensation)	–	–	–	n/a	n/a	n/a
Total variable remuneration (incl. compensation)	**–**	**–**	**–**	**n/a**	**n/a**	**n/a**
Stock option plan	**–**	**–**	**–**	**n/a**	**n/a**	**n/a**
Total remuneration	**106**	**106**	**106**	**n/a**	**n/a**	**n/a**

[1] The D&O insurance represents an additional fringe benefit granted.

Dr Alexander Riedel was also granted 100,000 virtual stock options on a one-time basis on 1 November 2018. The virtual stock options granted vest over a period of four years and the vesting period starts on the commencement of employment on 1 May 2018. The exercise date is 30 April 2022. Because capital increases took place between the pledge of the virtual stock options and the reporting date, the number of virtual stock options increased to 110,423 (previous year: 112,700). As of the reporting date, the remaining term of the virtual stock options was 28 months until the exercise date. The obligation amounts to €64 thousand (previous year: €99 thousand). Income from the reversal of provisions was €35 thousand in the financial year (previous year: expense of €99 thousand).

At the start of the period, a total of 232,262 virtual stock options were outstanding. No further options were granted in the reporting period. As of the reporting date, there were 227,500 virtual stock options outstanding, none of which could be exercised.

Benefits on the termination of employment in the Management Board

Due to the early, amicable termination on 30 September 2019 of Guido Decker's contract, which was originally due to end on 31 December 2023, severance benefits of €600 thousand were agreed with him. The severance payment was paid in the agreed amount in October 2019.

b) Remuneration of the Supervisory Board

(i) Remuneration system for the Supervisory Board

The remuneration system for the Supervisory Board was amended by shareholders at the Annual General Meeting on 3 July 2019 and Article 13 of the Articles of Association was amended accordingly. Subsequently, in addition to the reimbursement of their expenses, members of the Supervisory Board receive fixed remuneration payable after the end of the financial year. The basic remuneration is €25,000 per member. The chairman receives twice this basic amount. The deputy chairman of the Supervisory Board or the chairperson of a committee receive 1.5 times the amount. Supervisory Board members who have only belonged to the Supervisory Board for part of the financial year receive lower remuneration in proportion to the length of their time as members.

(ii) Supervisory Board and audit committee remuneration in the 2019 financial year

The Supervisory Board member Roy Bachmann works for RB Capital Ltd., Guernsey. RB Capital Ltd., Guernsey, invoiced a total of €24 thousand for brokerage and consulting services in the 2019 financial year (previous year: €813 thousand).

3. RELATIONSHIP TO SHAREHOLDERS AND TRANSPARENCY

KAP AG publishes a financial calendar in which relevant dates are entered in a timely manner in the Investor Relations section of its website www.kap.de/en. Moreover, all IR releases, press releases and ad hoc releases are available online on https://www.kap.de/en/investor-relations.

The Annual General Meeting offers shareholders the opportunity to exercise their voting rights themselves or by proxy. In the context of the Annual General Meeting, it is explained how instructions for exercising voting rights can be given.

With due regard to the statutory deadlines, immediately following their receipt, KAP AG publishes all notifications necessary under the Market Abuse Regulation (EU) No 596/2014 (hereinafter referred to as "MAR") regarding the acquisition or disposal of securities in the Company by members of the Management Board or the Supervisory Board (directors' dealings) on its website and forwards them to the register of companies.

4. RISK MANAGEMENT, COMPLIANCE, ACCOUNTING, AUDITING

We consider handling risks responsibly to be an important element of good corporate governance. KAP AG has a systematic risk management system that enables the Management Board to react immediately to relevant changes in the risk profile and to identify market trends early. The functionality of the risk management system is a subject of the annual audit. A detailed presentation is available in the Group management report starting on page 72 et seqq. of the 2019 Annual Report.

Compliance with national and international legal and ethical principles in business dealings is an integral component of KAP AG's corporate culture. These include principles such as professionalism, honesty and integrity towards our customers, suppliers, governments, employees, shareholders and the public.

The Supervisory Board engaged Mazars GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft, with registered office in Frankfurt am Main, as the auditor for the 2019 financial year. It had previously made sure that the existing relations between the auditor and KAP AG and its boards do not give reason for any doubt regarding the auditor's independence. Furthermore, it is agreed that the Supervisory Board will be immediately informed of any grounds for disqualifying the auditors or questioning their impartiality occurring during the audit.

5. INSIDE INFORMATION (AD HOC DISCLOSURES), INSIDER LIST, DIRECTORS' DEALINGS IN THE FINANCIAL YEAR

KAP AG provides information openly, transparently, comprehensively and promptly. Its disclosure policy ensures a standardised approach to handling of information relevant to the capital markets worldwide. It sets out the rules for the publication of financial results and significant events as well as internal processes in which the relevance of information is reviewed.

(i) Ad hoc disclosures

According to Art. 17 MAR, KAP AG is required to publicly disclose inside information that directly concerns it immediately.

If there is an obligation to publish an ad hoc disclosure, the disclosures were ensured in accordance with the legal requirements and with the assistance of a specialist service company. Three ad hoc disclosures were published in the 2019 financial year. Specifically, the disclosures related to the disclosure of the intention of two major shareholders to place their shares, the revision of the forecast for the 2019 financial year and personnel changes in KAP AG's Management Board.

(ii) Insider list

Pursuant to Art. 18 MAR, KAP and persons acting on its behalf or on its account are required to maintain lists of persons working for them who have access to inside information. Those affected were informed of the legal obligations arising from this and the legal consequences of violating them.

(iii) Directors' dealings

Persons discharging managerial responsibilities at KAP AG (the issuer), as well as persons closely associated with them, are required under Art. 19 (1) MAR to notify the German Federal Financial Supervisory Authority (BaFin) and the issuer of so-called transactions conducted on their own account, i.e. transactions with financial instruments of the issuer (e.g. equities, bonds, options, forward contracts, swaps) if the limit of €5,000 is exceeded within the calendar year. The notification deadline is three business days from the date of the transaction.

In the 2019 financial year, we were notified of six transactions. They related to the acquisition of equities by Management Board members, Uwe Stahmer and Dr Alexander Riedel. Furthermore, two notifications were corrected.

Directors' dealings can be found on https://www.kap.de/en/investor-relations/disclosures/directors-dealings and also published in accordance with legal requirements and with the assistance of a specialist service company.

6. SWITCH BY A MEMBER OF THE MANAGEMENT BOARD TO A TOP POSITION ON THE SUPERVISORY BODY

No member of the Management Board was appointed a member of the Supervisory Board in the past financial year.

7. FUTURE DEVELOPMENTS OF THE GROUP'S CORPORATE GOVERNANCE

We see corporate governance as an ongoing process, the development of which we will continue to monitor closely in the future.

KAP AG

Fulda, 10 March 2020

The Management Board The Supervisory Board

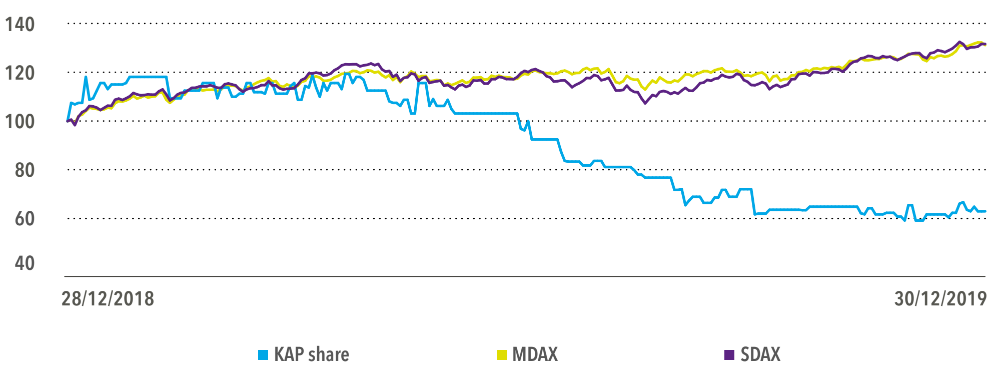
KAP ON THE CAPITAL MARKET

STOCK MARKET YEAR 2019: AN OVERALL POSITIVE MARKET DESPITE CONTINUING UNCERTAINTIES

The USA's trade conflicts with China and Europe, the discussion about the implementation of Brexit and the economic downturn manifesting in important economic areas in the middle of the year only impacted global capital markets for a short time.

German equity markets rose significantly in 2019. The development can be broken down into three phases: An initial upturn phase from January to the start of May was followed by a volatile consolidation phase. A second upward trend began at the end of August and continued until the end of the year without major corrections. The three most important German equity indices, the DAX, the MDAX and the SDAX, developed accordingly during the year. The indices reached their highs for the year in the second half of December: the DAX on 16 December at 13,407.66 points, the MDAX on 23 December at 28,545.29 points and the SDAX on 16 December at 12,594.93 points. As of the end of the year, all indices thus reported very positive performance. The DAX rose by 25.5% to 13,249.01, the MDAX rose by 31.2% to 28,312.80 points and the SDAX even rose by 31.6% to 12,511.89 points (reference date 30/12/2019).

Price performance of the KAP share compared to selected indices in 2019 (in %)



KAP'S SHARE PRICE PERFORMANCE

The KAP share closed the 2019 stock market year at a price of €20.20. This is equivalent to a decrease of 36.9% compared to the previous year's closing price. Taking account of the €2.00 per share dividend paid at the start of July, the decrease amounted to 30.6%. This significant fall is particularly due to increasingly weak operating development over the course of the year and one-time special items. KAP's share price performed accordingly. It reached its highest level on 18 April at €38.20 and its low for the year on 25 November at €19.00. Based on its closing price for the year, the KAP Group's market capitalisation was €156.8 million.

Key data of the KAP share

		2019	2018	2017	2016
Closing price for the year	€	20.20	32.00	36.00	21.10
High for the year	€	38.20	42.80	37.39	23.20
Low for the year	€	19.00	31.60	20.70	18.00
Number of shares (31/12)	in millions	7.8	7.8	6.6	6.6
Market capitalisation (31/12)	€ millions	156.8	248.3	238.5	139.8
Earnings per share	€	–1.82	1.98	4.68	1.82
Price-to-earnings ratio [1]		–	16.16	7.69	11.59
Dividend per share	€	0.00 [2]	2.00	2.00	2.00
Dividend yield	%	0.0	6.3	5.6	9.5
Total dividend payout [3]	€ millions	15.5	14.1	13.2	6.6
Payout ratio	%	0.00	101	43	110

[1] Closing price for the year/earnings per share.
[2] Subject to approval by the Annual General Meeting.
[3] The total dividend paid out in the financial year for the previous financial year.

SHAREHOLDER STRUCTURE UNCHANGED

The shareholder structure remained unchanged in the 2019 financial year. As of 31 December 2019, as the largest shareholder the Carlyle Group continued to hold 45.5% of the shares and FM Verwaltungsgesellschaft mbH as the second largest shareholder continued to hold 25.5% of the shares [1]. According to Deutsche Börse's definition, the rest of the shares are attributable to free float, which amounted to 29.0%.

The number of shares in issue remained constant at 7,760,353 shares with a calculated proportion of the share capital of €2.60 each.

DIVIDEND SUSPENSION PROPOSED

In view of the economic uncertainties in connection with the spread of the coronavirus and on the basis of the current information situation, the KAP Group expects a negative impact on revenue, earnings and liquidity in the 2020 financial year. In light of this, the Management Board and Supervisory Board will recommend a dividend suspension to shareholders at the Annual General Meeting taking place on 22 September 2020. Generally, KAP AG aims to maintain its earnings-oriented dividend policy and to pay a dividend to its shareholders again in the future.

[1] The difference from the information on page 156 results from dilution due to the capital increases carried out.

MORE TRANSPARENCY: ADMISSION TO THE PRIME STANDARD AND IR ACTIVITIES INTENSIFIED

In the past year, we have laid the foundations for more transparency and acceptance on the capital market by switching from the General Standard to the Prime Standard. The Prime Standard is the segment of Deutsche Börse with the highest quality standard and the strictest publicity obligations.

In connection with this, we have expanded our investor relations activities. We have extensively informed institutional investors and analysts at roadshows and conferences and were also available to private shareholders directly. In March and April 2019, we held roadshows in Germany, England and Austria. In November 2019, we also took part in the Deutsches Eigenkapitalforum in Frankfurt for the first time. In addition, we informed institutional investors and analysts at the MKK Munich Capital Market Conference in December 2019.

Key data of the KAP share

Stock exchange	Frankfurt
Market	Regulated Market
Transparency level (until 11/03/2019)	General Standard
Transparency level (from 12/03/2019)	Prime Standard
ISIN	DE0006208408
Security identification number	620840
Reuters Instrument Code	IURG

GROUP MANAGEMENT REPORT

SITUATION OF THE GROUP

BUSINESS MODEL OF THE GROUP

GROUP STRUCTURE

KAP AG is a listed industrial group with its registered office in Fulda. As the parent company, KAP AG particularly performs the higher-level functions of strategic corporate development as well as the further development and the creation of the segment strategy based on a focused buy-and-build approach. In addition, it performs central functions in the areas of controlling, corporate governance, investor relations, finance, treasury, legal and administration. The Group's operating business is divided into five segments: **engineered products, flexible films, surface technologies, precision components** and **it/services.** Based on a long-term segment strategy, high margin industrial segments are established and developed into market leaders in attractive niche markets.

The management of the segments is the responsibility of the segment managers. They implement the segment strategy autonomously on the basis of comprehensive individual road maps. Raw materials and services, production and transport are purchased on a decentralised basis by the operating subsidiaries of our five segments.

Structure of the KAP Group in 2019

KAP AG				
engineered products	**flexible films**	**surface technologies**	**precision components**	**it/services**
40.4% (previous year: 43.4%) Revenue share [1]	23.9% (previous year: 22.7%) Revenue share [1]	17.2% (previous year: 11.1%) Revenue share [1]	13.3% (previous year: 17.4%) Revenue share [1]	5.2% (previous year: 4.8%) Revenue share [1]

[1] Share of total revenue in the 2019 financial year.

SEGMENTS

The **engineered products** segment develops, produces and sells technical textiles. The areas in which our threads and fabrics are used include reinforcement for flexible feed pipes for the oil and gas industry, closures for insulin packaging for the pharmaceutical industry, reinforcement in premium tyres for the automotive industry, and reinforcement of conveyor belts and air springs in the field of road and rail transport. Our solutions are a key element for the characteristic performance required in our customers' specific application areas.

The **flexible films** segment specialises in extrusion coatings. We develop, produce and sell flexible films for various application areas. Our product portfolio includes flexible packaging material for the consumer goods industry, energy-efficient underlays and roof-sarking membranes, façade membranes and screed membranes for roofing and construction, simple protective covering solutions for the agricultural sector, high-tech solutions for shading technology in the construction of greenhouses, high-quality fabric-reinforced swimming pool linings and films, and high-end projection screens.

The **surface technologies** segment carries out a wide range of surface processes for our customers. We focus on innovative technical and chemical processes for refining metallic materials – aluminium, magnesium, zinc die-casting or steel. We make a decisive contribution to the long-lasting protection of our customers' products from corrosion and wear. We address a wide range of end markets, including furniture, the food industry, mechanical engineering, the electrical industry and the automotive sector.

The **precision components** segment develops, produces and sells highly complex plastic and plastic-metal compound parts. Our portfolio includes plastic gears with extrusion-coated metal shafts and related metal products that are used particularly in special electric or electromechanical drives. Selected areas of application for our high-precision gears include e-bike applications, power steering shafts and gear tips.

The **it/services** segment combines know-how from information technology (IT) and operational technology (OT) to create individual solutions for its customers. We implement innovative software solutions and tried-and-tested technologies in various sectors. The range of solutions extends from big data analytics to enterprise information management to IT service management. Interdisciplinary cooperation between technology specialists and mechanical engineers gives us unique expertise in digitalisation and for Industry 4.0 solutions.

ORGANISATIONAL CHANGES

With effect as of 1 October 2019, the Supervisory Board appointed Supervisory Board member Uwe Stahmer as an interim member of the Management Board. Following the resignation of Spokesman of the Management Board Guido Decker with effect as of 30 September 2019, the Management Board thus consists of at least two persons, as required by the Articles of Association.

LOCATIONS

The KAP Group is represented globally through its operating subsidiaries at a total of 29 sites in twelve countries. Our production focus continues to be on Germany. However, we also have production sites in Belarus, China, the Czech Republic, Hungary, India, Poland, Portugal, South Africa, Sweden and the USA. We are also represented by a subsidiary in Switzerland.

OBJECTIVES AND STRATEGIES

The KAP Group is an industrial group with a strategic focus on attractive niche markets in selected industrial sectors. We use a defined segment strategy to further develop our Group. This strategy forms the basis for our sustainable success. We have defined five strategic focuses with which we want to generate future growth:

Operational excellence: We want to continuously increase the productivity and efficiency in the individual segments through suitable measures. We particularly focus on a segment-wide exchange of established best-practice solutions, and the establishment and use of shared functions within our Group. At the same time, we want to optimise our product range with a view to customer needs and also optimise the contribution margin achieved.

Research and development (R&D): We want to establish joint R&D centres within our segments and thus anchor a marked culture of innovation in our Group. This will enable us to minimise scattering loss, reduce development time, and accelerate products and solutions to market readiness more quickly. We want to expand our expertise particularly in important growth areas such as Industry 4.0, the Internet of Things (IoT) or big data.

Customer enhancement: We want to continuously extend the area of use for our products and open up new areas of application. Implementing technical sales teams extends our sales concept and emphasises our development skills. At the same time, central key account management at the segment level means we are becoming more efficient in customer contact and can leverage additional potential.

Geographical expansion: We want to continuously optimise our production against a background of increasingly global marketing. At the same time, we want to develop locally anchored segments and segment companies into genuine global players. We focus both on the strength within the individual segments and on geographical expansion with local partners who have an excellent sales network.

Mergers and acquisitions (M&A): In addition to further developing our existing segments, we additionally want to grow through targeted acquisitions. We have a clearly defined road map for every segment and are concentrating on value-adding acquisitions that immediately make an appreciable contribution to our Group's profitability. Our successful M&A track record means we have excellent access to family-owned SMEs.

MANAGEMENT SYSTEM

The corporate management of the KAP Group is geared to the long-term corporate strategy and is additionally guided by short- and medium-term objectives. This approach means that we can record and analyse any deviations from the overarching strategy and the detailed targets for growth, profitability and liquidity derived from it, and – if necessary – counteract the deviations with suitable measures.

Within the framework of strategic corporate development, KAP AG's Management Board is responsible for overall planning and realising of the targets set. We are in constant dialogue with our segment managers and the managing directors of our subsidiaries about the results achieved, possible deviations and future developments. The management reporting system for the monthly management of the segments includes not only an explanation of the current business situation, but also a wide range of financial and non-financial key performance indicators, including from the income statement, balance sheet, liquidity forecast and cash flow statement. A monthly analysis of working capital is also conducted. The most important profitability- and liquidity-oriented key performance indicators include, in particular, revenue, earnings before interest, taxes, depreciation and amortisation (EBITDA), "normalised EBITDA", which has been adjusted for special items, (for its derivation, see page 50), tangible investments and regularly updated liquidity planning. For the purpose of long-term comparison and for a better understanding of business development, KAP AG normalises certain income items and expenses that Management believes represent special items and are not connected with current operating activities. The composition and development of these key figures in the year under review is explained in the economic report starting on page 44.

RESEARCH AND DEVELOPMENT

KAP AG does not conduct any research and development in the strict sense of the term. Within the Group, the activities are located directly in our segments or segment companies. This ensures direct proximity to customers, and we are thus able to advance innovative solutions to market readiness early and often together with our customers. At the same time, we optimise the coordination of individual R&D activities within the segments with overarching management by the segment managers. We essentially pursue three strategic approaches with our activities: the continuous development of new products and product groups, the optimisation of our existing product portfolio and the further development of the production processes and technical procedures used. In the 2019 financial year, expenses for research and development in the KAP Group totalled €1.7 million (previous year: €0.3 million). This particularly concerned costs for software development of €636 thousand (previous year €0 thousand) and costs for samples of €407 thousand (previous year: €0 thousand).

ECONOMIC REPORT

MACROECONOMIC AND INDUSTRY-SPECIFIC CONDITIONS

DEVELOPMENT OF THE GLOBAL ECONOMY

The global economy grew significantly more weakly in 2019 than expected at the start of the year. Particularly in the second half of the year, growth momentum slowed significantly. Increasing trade uncertainties, triggered by the USA's conflicts with China and the European Union and the current lack of clarity about the organisation of future economic relations between the UK and the EU, as well as geopolitical tensions, led to slower growth of real gross domestic product (GDP). In total, global GDP rose by 2.9%, and thus significantly more slowly than in 2018.

Economic environment

%	Growth [1] 2019	Growth [1] 2018
World	2.9	3.6
Eurozone	1.2	1.9
Germany	0.6	1.5
USA	2.3	2.9
Emerging economies	3.7	4.5

[1] Real gross domestic product (GDP) growth.
Sources: International Monetary Fund (IMF) – World Economic Outlook Update of 20 January 2020; Federal Statistical Office – German economy grew 0.6% in 2019 (15/01/2020); ifo Institute – Joint Economic Forecast of autumn 2019: "Industrie in der Rezession – Wachstumskräfte schwinden" (02/10/2019); BDI – Research Q4 2019 (12/12/2019).

ECONOMIC DEVELOPMENT BY REGION

In the **eurozone,** GDP growth slowed further in 2019 and only reached 1.2%. Positive impetus continues to come from domestic consumption. In particular, gross fixed capital formation increased strongly by 2.5%. The growth of private consumption fell slightly by 0.3 percentage points, but reached a stable level. Government consumption expanded and rose by 0.2 percentage points. By contrast, as a result of low global demand for industrial goods and business-related services net exports noticeably curbed economic development with a negative growth rate of –0.1%. Consumer prices were 1.3% above the previous year's level and thus significantly below the inflation target set by the European Central Bank (ECB) of below, but close to, 2%. Accordingly, the ECB's monetary policy was just as expansionary as the eurozone member states' fiscal policies. The average unemployment rate fell by 0.6 percentage points within the space of a year to 7.6%.

The **German** economy increasingly lost steam in 2019, particularly in the summer period, with the result that GDP only increased by 0.6% year-on-year. This means the German economy grew for the tenth year in a row, albeit with a marked slowdown in momentum. The growth was particularly supported by consumption. Both private and government consumption expenditure grew more than in the previous year, private consumption expenditure growing by 1.6% and government consumption expenditure by 2.5%. Gross fixed capital formation increased sharply by 2.5%, driven by a significant rise in construction activities in civil engineering and in housebuilding. By contrast, weak industrial production led to noticeable destocking. Gross investment fell by 1.7% in total accordingly. The growth in exports slowed noticeably due to the global weakness of industrial production and of investing activities, and also due to the slowdown in the automotive cycle by 1.2 percentage points to just 0.9%. The number of people in work increased by around 400,000 to an annual average of 45.3 million. The unemployment rate thus fell further to 4.9%.

In the **USA,** the economy was supported by the expansion of private and public consumption expenditure in 2019, whereas investments in inventory and business fell. The trade conflict with China and the economic slowdown in many advanced economies had a negative impact on exports. Overall, growth in GDP slowed to 2.3%.

In emerging markets and developing countries, growth momentum continued to fall in 2019, reaching 3.7%. Asian emerging markets and developing countries continued to show the greatest economic momentum with a growth rate of 5.6%. However, the escalation of the trade dispute between China and the USA and the economic weakness in advanced economies led to a noticeable slowdown in economic development in these regions too.

DEVELOPMENT OF IMPORTANT CUSTOMER SECTORS

The KAP Group’s segments and segment companies operate in a large number of attractive market niches and produce products, solutions and services largely for companies from the industrial sector. Data on current developments in these markets is publicly available only to a limited extent due to their particular nature.

The general economic situation and the development of industrial production are key for the development of the segments and the segment companies. According to calculations by BDI – Bundesverband der Deutschen Industrie e.V., when adjusted for calendar effects, production in the manufacturing sector fell by 4.2% year-on-year in 2019. Whereas noticeable growth was achieved in the construction industry (+1.8%) and main construction industry (+4.5%), contractions, some of which were significant, were experienced in the production of consumer goods (–8.1%), intermediate consumption goods (–5.2%) and capital goods (–3.3%).

Key applications

engineered products	flexible films	surface technologies	precision components	it/services
Power belts, hoses and air springs for the automotive sector	TPU roofing membranes	Cathodic dip coating (CDC)	Electric parking brake	Enterprise content management
Premium tyres	Reinforced PVC pool liners	Passivation	Wiper system	Big data analytics
Heavy conveyor belts	Coated vapour barriers	Zinc-nickel	E-bikes	
Industrial adhesives and sealants	Membranes for car transport	Copper-nickel-chrome (Chrome III)	Electric steering adjustment	
	Cinema screens			

BUSINESS PERFORMANCE

OVERALL STATEMENT OF THE MANAGEMENT BOARD ON BUSINESS PERFORMANCE AND THE ECONOMIC SITUATION

Slowing economic momentum and the drastic fall in demand from customers from the automotive sector impacted the development of the KAP Group in the 2019 financial year. After we had revised our forecast in June and adjusted our expectations for the Group in November, at €372.8 million (previous year: €389.8 million) revenue was in line with our forecasts and at €31.9 million (previous year: €38.9 million) adjusted EBITDA was slightly above our revised forecast. The EBITDA margin falling by 1.4 percentage points to 8.6% (previous year: 10.0%) meant the minimum target return was not achieved despite the early introduction of comprehensive optimisation and efficiency programmes in the segments affected by the economic downturn, so we cannot be satisfied with the 2019 financial year overall. Our investments in property, plant and equipment are below the previous year in the changed consolidated group at €16.7 million (previous year: €18.0 million). The consolidated annual result is €–14.1 million following €14.2 million in the previous year.

As expected, operating development in our five segments was extremely varied. A decrease in customer traffic rates from our customers from the automotive sector particularly impacted the **engineered products** and **precision components** segments. Revenue and adjusted EBITDA here were significantly below the previous year's level. Whereas we had anticipated this development in the **precision components** segment, if not quite on this scale, development in the **engineered products** segment was significantly below our expectations. On the basis of a comprehensive analysis, in January 2020 we therefore decided to comprehensively restructure the segment. The "Events after reporting period" section contains additional information on the measures adopted on page 67.

Our **flexible films, surface technologies** and **it/services** segments developed positively. The **surface technologies** segment grew strongly both operationally and as a result of consolidation. The business development in the **it/services** segment was above our expectations. Weaker development in the field of transport covers for new cars affected the **flexible films** segment. However, despite revenue below our expectations, adjusted EBITDA in this segment rose slightly and therefore exceeded our forecast.

Forecast/actual comparison[1]

in € millions	2018[3]	2019 forecast	2019 result
Group			
Revenue[2]	422.3	365–375	372.8
Normalised EBITDA[2]	43.5[4]	29–33	31.9
Investments in property, plant and equipment	21.2	Significant increase	16.7
engineered products			
Revenue	169.2	Slight increase	150.7
Normalised EBITDA	12.8[4]	Slight increase	2.4
Investments	4.2	Significant increase	2.9
flexible films			
Revenue	88.4	Slight increase	89.2
Normalised EBITDA	9.1	Stable	10.1
Investments	2.1	Significant increase	2.4
surface technologies			
Revenue	43.2	Significant increase	64.1
Normalised EBITDA	7.5	Significant increase	13.7
Investments	2.7	Significant increase	7.3
precision components			
Revenue	67.6	Significant decrease	49.5
Normalised EBITDA	10.8	Significant decrease	3.4
Investments	4.7	Slight increase	2.5
it/services			
Revenue	22.6	Stable	23.3
Normalised EBITDA	2.6	Stable	3.0
Investments	0.8	Significant increase	1.5

[1] Explanatory notes on the expected development: The note “slight increase” corresponds to a change of between 1 and 10%, whereas “significant increase” denotes a change of 10% or more and “stable” describes a change of +/–1%. The note “significant decrease” corresponds to a change of –10% or more.

[2] The forecast was revised on 21 November 2019. The original forecast issued on 26 March 2019 anticipated revenue within a range of €400-430 million and normalised EBITDA within a range of €45-53 million.

[3] Including discontinued operations.

[4] Changed as a result of error correction.

SIGNIFICANT EVENTS

Following a competitive analysis of the irregularities that came to light in June during the valuation of inventory in the **engineered products** segment, additional expenses totalling €7.2 million were incurred. €3.9 million of this amount is attributable to the 2019 financial year and €3.3 million to the previous periods affected. The additional, non-cash expenses posted in 2019 comprise write-downs of inventories of €1.9 million and write-downs of receivables and additions to provisions of €2.0 million. The full audit of the valuation of inventory has been completed, meaning that apart from the error correction made in the first half of 2019, no further financial impact from this incident is to be expected.

On 26 June, a fire destroyed two production facilities belonging to the **surface technologies** segment at the Heinsdorfergrund site. No employees were harmed in the fire. Production was affected despite relocation to other sites and external companies. The existing insurance policy is expected to cover our losses from the fire. At the same time, non-cash impairments of production facilities of €4.9 million were incurred. In addition there were further related expenses of €5.4 million, particularly as a result of the business interruption.

PERFORMANCE

FINANCIAL PERFORMANCE

Selected key indicators on financial performance

		2019 [3]	2018 [3,4]	Change (%)
Revenue	€ millions	372.8	389.8	–4.3
EBITDA	€ millions	36.2	37.9	–4.4
Normalised EBITDA [1]	€ millions	31.9	38.9	–18.0
Normalised EBITDA margin [2]	%	8.6	10.0	–14.0
Depreciation and amortisation	€ millions	46.7	25.0	86.8
Operating result (EBIT)	€ millions	–10.6	13.0	> 100
Financial result	€ millions	–5.9	–5.2	–13.5
Earnings before taxes (EBT)	€ millions	–16.5	7.8	> 100
Consolidated annual result after taxes	€ millions	–14.1	14.2	> 100
Earnings per share	€	–1.82	1.98	> 100
Dividend per share	€	0.00	2.00	–50.0

[1] See overview of special items and non-recurring effects.
[2] Normalised EBITDA/revenue.
[3] Continuing operations.
[4] Changed as a result of error correction.

Revenue of 372.8 million 4.3% below previous year

In the 2019 financial year, at €372.8 million the KAP Group's revenue was 4.3% below the previous year's level (previous year: €389.8 million). It must be taken into account here that portfolio optimisations made – the sale of Geiger Fertigungstechnologie GmbH ("Geiger") in July 2018 and the acquisition of the Heiche Group, also in July 2018 – make any comparison with the previous year difficult. In 2018, Geiger contributed around €32.5 million to revenue, meaning that revenue in 2018 including discontinued operations amounted to €422.3 million. The positive effect of the first full year consolidation of the Heiche Group in 2019 was around €41.7 million. Taking account of these transaction effects, revenue was €372.8 million, equivalent to a decrease of 4.3%.

Currency effects had a positive (previous year: negative) impact in the year under review at €1.1 million (previous year: €3.1 million). From a regional perspective, positive impetus came from North/South America, while Germany and the rest of Europe were rather weak. With a revenue share of 40.6% (previous year: 41.5%), Germany remains the most important market, followed by the rest of Europe at 38.8% (previous year: 38.4%), North/South America at 12.4% (previous year: 11.1%), Asia at 7.8% (previous year: 8.0%) and other regions at 0.6% (previous year: 1.1%). In total, the foreign share of total revenue thus increased slightly by 0.9 percentage points to 59.4% (previous year: 58.5%).

Inventories of finished goods and work in progress decreased by €2.3 million (previous year: increased by €5.2 million). The decrease is largely due to the write-downs made. Other own work capitalised fell to €0.5 million (previous year: €0.9 million). Total performance was thus €370.9 million (previous year: €393.5 million).

Revenues by region

in € millions	2019	2018	Change (%)
Germany	151.3	161.6	–6.3
Rest of Europe	144.5	149.7	–3.4
North/South America	46.0	43.2	6.5
Asia	29.0	31.1	–6.7
Other regions	2.0	4.2	–52.3

Other operating income increased by 104.9% to €29.7 million (previous year: €14.5 million), in particular due to the insurance compensation received in connection with the fire damage at the Heinsdorfergrund site. This item increased to €15.7 million in the year under review (previous year: €0.2 million). At €2.6 million (previous year: €2.4 million), income from the reversal of provisions was above the previous year's level, as were reimbursements of costs received, which at €1.3 million (previous year: €0.4 million) exceeded the previous year's level. By contrast, gains from the disposal of assets fell to €0.5 million (previous year: €1.2 million) and gains from currency translation fell to €1.2 million (previous year: €1.7 million).

Cost of materials decreased disproportionately by 7.2% to €203.8 million (previous year: €219.7 million). In relation to total performance, it was possible to reduce the cost of materials ratio by a further 0.7 percentage points to 55.0% (previous year: 55.7%). This development reflects the various programmes for increasing resource efficiency that have been realised within the individual segments. Personnel expenses increased by 8.1% to €100.4 million (previous year: €92.9 million). The ratio of personnel expenses to total performance was therefore 27.1% (previous year: 23.6%), equivalent to an increase of 3.5 percentage points. Other operating expenses increased by 4.7% to €60.2 million (previous year: €57.5 million). Lease costs in particular decreased by 68.0% to €0.8 million (previous year: €2.5 million) due to the change in accounting for leases under IFRS 16. Comparability to the previous year's EBITDA is limited because rental expenses were included in EBITDA in 2018.

Normalised EBITDA fell by 18.0% to €31.9 million in the year under review (previous year: €38.9 million). The **engineered products** segment in particular reported a significantly lower result, but the **precision components** segment was also noticeably below the previous year's level. By contrast, the **flexible films, surface technologies** and **it/services** segments increased their result. With normalised EBITDA, special items and non-recurring effects are eliminated to increase transparency about the Group's operating development and increase the comparability of individual key indicators over time. In the year under review, the adjustments totalled €4.3 million (previous year: €1.4 million). Taking account of all special items and non-recurring effects, EBITDA decreased by 4.4% to €36.2 million (previous year: €37.9 million).

Management adjusts certain expenses and income that can be considered special items or non-recurring effects for the purpose of the operational management of the Company. The normalised EBITDA presented below reflects the Management perspective. In the year under review, expenses and income with an effect totalling €–4.3 million were normalised within EBITDA. Normalisations in the amount of €–7.9 million relate to the net amount of insurance compensation and expenses in connection with the fire damage at the Heinsdorfergrund site and at the Sátoraljaújhely site in Hungary in the surface technologies segment. Furthermore, a subsequent purchase price adjustment resulting from the sale of Geiger from the previous year of €–0.5 million was normalised. A normalisation of €–0.2 million arises from hail damage from the Fulda site. This net amount results from insurance benefits received and corresponding expenses. Payments to former Management Board members of €0.6 million were normalised. For the transparent presentation of the operating results, transaction-related expenses of €0.6 million were normalised. In connection with identified irregularities in the **engineered products** segment, an amount of €0.9 million due to impairments of inventories and severance payments was normalised. Special investigations at a site in Hungary in the **precision components** segment led to one-off charges totalling €2.2 million, which relate to the consequences of compliance breaches, to severance payments and to consulting fees. These were also normalised as special items.

Overview of special items and non-recurring effects

in € millions	2019	2018	Change (%)
EBITDA	36.2	37.9	–4.4
Severance payments	0.6	1.4	–57.1
Heiche purchase price allocation	0.0	–0.5	–100
Net balance of surface fire damage	–7.9	0.0	> 100
GM Tec purchase price adjustment	–0.5	0.0	> 100
Fulda site hail damage	–0.2	0.0	> 100
Transaction-related advice fees	0.6	0.0	> 100
Fraud results engineered products segment	0.9	0.0	> 100
Fraud results precision components segment	2.2	0.0	> 100
Normalised EBITDA	31.9	38.9	–18.0

Depreciation and amortisation increased by 86.8% to €46.7 million (previous year: €25.0 million). Impairments totalling €17.0 million (previous year: €0.8 million) were incurred, €4.9 million in connection with the fire at our Heinsdorfergrund site and €9.5 million due to impairments in our **engineered products** and **surface technologies** segments.

Depreciation of assets held under finance leases amounts to €1.9 million (previous year: €0.3 million).

The operating result was €–10.6 million in the year under review (previous year: €13.0 million). The result before income taxes fell accordingly to €–16.5 million (previous year: €7.8 million). Actual tax expense decreased by 45.0% to €3.3 million (previous year: €6.0 million). Taking into account deferred taxes from temporary valuation differences and tax loss carry-forwards totalling €2.4 million (previous year: €1.0 million), income taxes amounted to €–1.0 million (previous year: €–5.0 million). Gains/losses from discontinued operations amounted to €3.3 million (previous year: €11.1 million). In the 2019 financial year, a reassessment of the liability obligations assumed towards the acquirer of the MVS Group was necessary (previous year: €1.1 million). In the previous year, this included the prorated annual result for the financial year and the deconsolidation proceeds from the sale of the shares in Geiger Fertigungstechnologie GmbH totalling €10.0 million.

The consolidated annual result fell from €14.2 million to €–14.1 million. As in the previous year, it was almost exclusively attributable to the shareholders of KAP AG. Earnings per share decreased from €1.98 to €–1.82. Our dividend policy is based on the assumption of continuity and profit orientation. On this basis, the Management Board and Supervisory Board will propose a dividend of €0.00 per share to shareholders at the Annual General Meeting on 22 September 2020 (previous year: €2.00 per share).

Segment development

engineered products segment

Selected key indicators on development in the engineered products segment

		2019	2018	Change (%)
engineered products				
Revenue	€ millions	150.7	169.1	–10.8
EBITDA	€ millions	1.5	11.7	–87.1
Normalised EBITDA [1]	€ millions	2.4	12.8	–81.2
EBITDA margin [2]	%	1.6	7.6	–78.9
Investments	€ millions	2.9	4.2	–30.9
Employees		948	1,046	–9.3

[1] EBITDA before write-downs of inventories and severance payments (previous year: adjusted for severance payments).
[2] Normalised EBITDA/revenue.

In the year under review, revenue in the **engineered products** segment decreased by 10.8% to €150.7 million (previous year: €169.1 million). In particular, demand decreased from customers in the automotive field, who suffered from a reduced order volume from major automotive manufacturers and automotive suppliers. Weaker development was also seen in the field of fabric for conveyor belts. Adjusted EBITDA fell by 81.2% to €2.4 million (previous year: €12.8 million). The adjusted special items and non-recurring effects in a volume of €0.9 million particularly comprise non-cash write-downs of inventories and also severance payments. At 1.6%, the EBITDA margin was 6.0 percentage points below the previous year's level (previous year: 7.6%).

In 2019, the investment volume decreased by a total of 30.9% to €2.9 million (previous year: €4.2 million). The sites in Germany and Portugal in particular were the regional focus of our investment activities. The number of employees decreased by 9.3% to 948 as of 31 December 2019 (previous year: 1,046).

flexible films segment

Selected key indicators on development in the flexible films segment

		2019	2018	Change (%)
flexible films				
Revenue	€ millions	89.2	88.4	0.9
EBITDA	€ millions	10.1	9.1	11.0
EBITDA margin	%	11.4	10.3	6.6
Investments	€ millions	2.4	2.1	14.3
Employees		326	326	0.0

Revenue in the **flexible films** segment increased by 0.9% in the year under review to €89.2 million (previous year: €88.4 million). In particular, premium products from the field of construction, such as ceiling membranes and pool liners, and products for agricultural applications contributed to this positive performance. By contrast, losses were suffered in the field of transport protection for cars due to the generally weak development in the automotive field. The rising proportion of premium products led to a disproportionate increase in EBITDA by 11.0% to €10.1 million (previous year: €9.1 million). The EBITDA margin improved by 1.1 percentage points to 11.4% (previous year: 10.3%).

At €2.4 million, the investment volume increased year-on-year (previous year: €2.1 million). The focus of investment activities was particularly on our production site in Nordkirchen-Capelle. The number of employees remained unchanged at 326 as of 31 December 2019 (previous year: 326).

surface technologies segment

Selected key indicators on development in the surface technologies segment

		2019	2018	Change (%)
surface technologies				
Revenue	€ millions	64.1	43.2	48.4
EBITDA	€ millions	21.6	7.9	> 100
Normalised EBITDA [1]	€ millions	13.7	7.5	82.7
EBITDA margin [2]	%	21.4	17.4	23.0
Investments	€ millions	7.3	2.7	> 100
Employees		761	810	–6.0

[1] EBITDA before expenses and insurance settlements arising from fire damage (previous year: goodwill from the acquisition of the Heiche Group).
[2] Normalised EBITDA/revenue.

In the **surface technologies** segment, revenue increased by 48.4% to €64.1 million (previous year: €43.2 million). The first-time full-year consolidation of the Heiche Group had a positive effect. It was possible to minimise the negative impact of the capacity loss suffered as a result of the fire at the Heinsdorfergrund site. Nevertheless, its consequences curbed operational growth in the second half of the year. Adjusted EBITDA grew by 82.7% to €13.7 million (previous year: €7.5 million). The adjustments made particularly comprise the expenses and reinsurance settlements from the fire damage to our Heinsdorfergrund and Hungary sites. The total volume was €7.9 million (previous year: €0.0 million). The EBITDA margin improved by 4.0 percentage points to 21.4% (previous year: 17.4%).

Investment volume increased by 81.5% year-on-year to €4.9 million (previous year: €2.7 million). The focus of our activities was particularly on the expansion of capacity at our sites in Poland and Hungary. As of 31 December 2019, the number of employees decreased by 6.0% to 761 (previous year: 810).

precision components segment

Selected key indicators on development in the precision components segment

		2019	2018	Change (%)
precision components				
Revenue	€ millions	49.5	67.6	–26.7
EBITDA	€ millions	2.2	10.8	–79.6
Normalised EBITDA [1]	€ millions	3.4	10.8	–68.5
EBITDA margin [2]	%	6.9	16.0	–56.8
Investments	€ millions	2.5	4.7	–46.8
Employees		619	630	–1.7

[1] EBITDA before Geiger purchase price adjustment and consulting fees (previous year: no adjustments).
[2] Normalised EBITDA/revenue.

The revenue in the **precision components** segment decreased by 26.7% to €49.5 million (previous year: €67.6 million). There were considerable falls in revenue in particular at the Dresden site. Furthermore, the closure of the Haslach site in 2018 had effects on the segment's revenue development in 2019. Weaker customer demand from the automotive sector noticeably affected operating development in the segment. Adjusted EBITDA fell accordingly by 68.5% to €3.4 million (previous year: €10.8 million). The adjustments in a volume of €1.2 million (previous year: €0.0 million) particularly comprise the Geiger purchase price adjustment and consulting fees. The EBITDA margin fell by 9.1 percentage points to 6.9% (previous year: 16.0%).

The investment volume was €2.5 million (previous year: €4.7 million) and was thus 46.8% below the previous year's level. The focus of the investment activities was in particular on our sites in Dresden and Hungary. The number of employees fell by 1.7% to 619 as of 31 December 2019 (previous year: 630).

it/services segment

Selected key indicators on development in the it/services segment

		2019	2018	Change (%)
it/services				
Revenue	€ millions	23.3	22.6	3.1
EBITDA	€ millions	3.0	2.3	30.5
Normalised EBITDA [1]	€ millions	3.0	2.6	15.4
EBITDA margin [2]	%	12.9	11.5	12.2
Investments	€ millions	1.5	0.8	87.5
Employees		120	124	–3.2

[1] EBITDA in the previous year adjusted for severance payments.
[2] Normalised EBITDA/revenue.

In the **it/services** segment, revenue increased by 3.1% to €23.3 million (previous year: €22.6 million). Adjusted EBITDA improved by 15.4% to €3.0 million (previous year: €2.6 million). The adjustments made in the previous year comprised severance payments with a total volume of €0.3 million. The EBITDA margin improved by 1.4 percentage points to 12.9% (previous year: 11.5%).

Investment volume increased by €87.5% to 1.5 million (previous year: €0.8 million). The modernisation of the data centre in Germany was the clear focus. As of 31 December 2019, the number of employees decreased by 3.2% to 120 (previous year: 124).

CASH FLOWS

Principles and goals of financial management
The financial management of the KAP Group includes the procurement of equity and debt, liquidity management and the management of interest rate and currency risks. The Treasury department assumes the responsibility for financial management for all segments in the Group. A central cash-pooling system forms the basis for the liquidity management. The overarching goal is to ensure that the Group and the individual segments always have sufficient and permanent liquidity at the lowest possible costs. Another component of our financial management is the optimisation of working capital. By means of active management, we want to make an additional, positive contribution to the creation of additional cash and cash equivalents, to the reduction of the debt ratio and to the optimisation of the capital structure. The use of derivative financial instruments can generally be a suitable means of limiting market price risks. The conditions and control mechanisms necessary for the use of these instruments are set out in internal policies. As in the previous year, no derivatives were used in the year under review.

Other financial obligations
In the 2019 financial year, other financial obligations amounted to €4.4 million (previous year: €25.9 million), of which €0.5 million (previous year: €24.4 million) was accounted for by obligations from leases and €3.9 million (previous year: €1.5 million) by purchase commitments for property, plant and equipment.

Capital structure and liquidity

Development of net debt

in € millions	2019	2018	Change (%)
Non-current financial liabilities	78.1	59.4	31.5
+ Current financial liabilities	15.9	28.1	–43.4
Financial liabilities	94.0	87.5	7.5
– Cash and cash equivalents	5.1	11.7	–56.4
Net debt	88.9	75.8	17.3

In the year under review, financial liabilities increased by 7.5% to €94.0 million (previous year: €87.5 million). As of 31 December 2019, liabilities to banks decreased by 6.0% to €78.1 million (previous year: €83.1 million). €64.6 million of this (previous year: €59.0 million) was accounted for by liabilities with a remaining term of more than one year and €13.5 million (previous year: €24.1 million) by liabilities with a remaining term of less than one year. We have concluded the majority of the credit agreements in euros. There are liabilities to banks of €6.9 million (previous year: €17.5 million) in the Indian rupee and the Chinese renminbi. The ratio of liabilities to banks to total assets increased by 0.3 percentage points to 22.4% (previous year: 22.1%). By comparison, the equity ratio in the Group was 46.9% (previous year: 51.6%).

The financing is largely based on the syndicated loan agreement concluded in 2017 with a maximum volume of €124.7 million. The drawdown was €62.5 million as of 31 December 2019 (previous year: €69.3 million). The interest rate depends on Euribor and the net debt ratio and is at least 1.5%. The agreement made provides for margins between 1.5% and 2.7% above Euribor (or, where relevant, the Euribor floor). In 2019, the interest rates we had to pay overall for liabilities to banks were between 1.25% and 9.25% (previous year: 1.25% and 12.45%).

Finance lease liabilities increased to €15.3 million as a result of the change in accounting under IFRS (previous year: €0.5 million).

After deducting cash and cash equivalents, which fell by 56.4% to €5.1 million (previous year: €11.7 million), net debt as of the end of the 2019 financial year increased by 17.3% to €88.9 million (previous year: €75.8 million).

Cash flow and investments

Selected key indicators on cash flows

in € millions	2019	2018	Change (%)
Cash flow from operating activities	35.5	20.7	71.5
Cash flow from investing activities	–16.1	–2.3	> 100
Cash flow from financing activities	–26.0	–16.6	–56.7
Net change in cash and cash equivalents	–6.6	1.7	–100.0
Effect of changes in foreign exchange rates and consolidated group on cash and cash equivalents	0.0	–0.1	n/a
Cash and cash equivalents at end of period	5.1	11.7	–56.4

In the 2019 financial year, the cash flow from operating activities resulted in an increase in cash inflow from €14.8 million to €35.5 million (previous year: €20.7 million). Earnings before interest and income taxes of €–8.5 million (previous year: €23.1 million) were impacted in the 2019 financial year by expenses that did not lead to a cash outflow. Furthermore, significantly lower cash outflows relating to provisions and lower income tax payments had a positive effect on cash flow from operating activities.

Cash outflow from investing activities increased significantly by €13.8 million to €16.1 million (previous year: €2.3 million). It should be noted that changes in the consolidated group in the previous year led to cash inflows from the disposal of consolidation companies of €37.3 million and to a cash outflow from the addition of consolidated companies of €19.4 million. By contrast, the consolidated group remained stable in the year under review, so there were neither cash inflows nor cash outflows. Investments in property, plant and equipment, including investment properties decreased from €21.2 million to €16.7 million. Investing activities decreased in the **engineered products** and **precision components** segments in particular. Proceeds from the disposal of property, plant and equipment including investment properties amounted to €1.3 million (previous year: €1.7 million).

Cash outflow from financing activities increased by €9.4 million to €26.0 million in the 2019 financial year (previous year: €16.6 million). This was primarily due to the higher net repayments of financial liabilities of €10.5 million (previous year: €2.8 million). Dividends paid to shareholders increased from €14.1 million to €15.5 million due to the increased number of shares.

Cash and cash equivalents amounted to €5.1 million as of 31 December 2019 (previous year: €11.7 million). The free cash flow as the difference between cash inflow from operating activities and cash in/outflow for cash receipts/payments for investments in intangible assets, property, plant and equipment including investment properties and financial assets increased by €19.0 million to €19.4 million (previous year: €0.4 million).

Calculating the free cash flow

in € millions	2019	2018	Change (%)
Cash flow from operating activities	35.5	20.7	71.5
– Payments for investments in intangible assets	0.8	1.0	–20.0
+ Proceeds from disposal of property, plant and equipment including investment properties	1.3	1.7	–23.5
– Payments for investments in property, plant and equipment including investment properties	16.7	21.2	–21.2
+ Proceeds from the disposal of financial assets	0.1	0.2	–50.0
Free cash flow	19.4	0.4	>100

Working capital

Working capital decreased by 12.5% to €95.1 million as of 31 December 2019 (previous year: €108.7 million). This development is largely due to improved active working capital management.

Working capital

in € millions	2019	2018	Change (%)
Inventories	59.9	70.1	–14.5
+ Trade receivables	59.0	62.9	–6.2
– Trade payables	23.8	24.3	–2.0
Total	**95.1**	**108.7**	**–12.5**

FINANCIAL POSITION

The KAP Group's total assets of €349.2 million as of 31 December 2019 were €24.1 million below the level of 31 December 2018 of €373.3 million.

Balance sheet structure – assets

in € millions	2019	2018	Change
Non-current assets	**208.4**	**222.5**	**–14.1**
Intangible assets	35.4	41.6	–6.2
Property, plant and equipment	161.9	169.0	–7.1
Investment properties	4.4	4.7	–0.3
Other financial assets	1.3	1.4	–0.1
Deferred tax assets	5.4	5.8	–0.4
Current assets	**138.3**	**150.7**	**–12.4**
Inventories	59.9	67.0	–7.1
Trade receivables	59.0	62.9	–3.9
Income tax refund claims	2.3	2.6	–0.3
Other receivables and assets	12.1	6.4	5.7
Cash and cash equivalents	5.1	11.7	–6.6

On the assets side, non-current assets fell by €14.1 million to €208.4 million (previous year: €222.5 million). Intangible assets fell by €6.2 million to €35.4 million (previous year: €41.6 million). The decrease is particularly due to impairment of goodwill of €2.6 million in the **surface technologies** segment and amortisation of customer relationships of €3.5 million (previous year: €2.5 million). Property, plant and equipment decreased by €7.1 million to €161.9 million (previous year: €169.0 million). Additions of assets that were capitalised for the first time as finance leases under IFRS 16 amounted to €17.1 million in the 2019 financial year. €15.5 million of this amount relates to land and buildings, €0.2 million to technical equipment and machinery and €1.5 million to plant and office equipment. Investments in property, plant and equipment amounted to €16.4 million. Depreciation of property, plant and equipment of €39.5 million led to a net decrease in the carrying amount of property, plant and equipment. This includes depreciation of assets held under finance leases of €1.9 million and impairments of €9.5 million and €4.9 million due to the fire damage at our Heinsdorfergrund site.

Current assets decreased by €12.4 million to €138.3 million (previous year: €150.7 million). This is largely due to a decrease in inventories by €7.1 million to €59.9 million (previous year: €67.0 million), a decrease in trade receivables by €3.9 million to €59.0 million (previous year: €62.9 million) and a decrease in cash and cash equivalents by €6.6 million to €5.1 million (previous year: €11.7 million).

Balance sheet structure – liabilities and equity

in € millions	2019	2018	Change
Equity	**161.0**	**192.0**	**–31.0**
Subscribed capital	20.2	20.2	0.0
Capital reserve	86.8	86.8	0.0
Reserves	–16.4	–15.4	–1.0
Net result	68.4	98.0	–29.6
Non-controlling interests	2.0	2.4	–0.4
Non-current liabilities	**106.8**	**90.1**	**16.7**
Provisions for pensions and similar obligations	19.9	18.1	1.8
Non-current financial liabilities	78.1	59.4	18.7
Deferred tax liabilities	8.6	12.2	–3.6
Current liabilities	**78.8**	**91.2**	**–12.4**
Other provisions	22.8	25.4	–2.6
Current financial liabilities	15.9	28.1	–12.2
Trade payables	23.8	24.3	–0.5
Income tax liabilities	6.6	4.9	1.7
Other liabilities	9.7	8.4	1.3

On the liabilities and equity side, equity fell by €31.0 million to €161.0 million (previous year: €192.0 million). The decrease is particularly due to the consolidated annual loss of €14.1 million and the dividend payment made for the financial year of €15.5 million.

Non-current assets increased by €16.7 million to €106.8 million (previous year: €90.1 million). The further decrease in the actuarial interest rate led to a €1.8 million increase in provisions for pensions and similar obligations to €19.9 million (previous year: €18.1 million). Due to the significant rise in finance lease liabilities by €13.5 million (previous year: €0.0 million), non-current financial liabilities increased by €18.7 million to €78.1 million (previous year: €59.4 million). Deferred tax liabilities amounted to €8.6 million (previous year: €12.2 million).

Current liabilities decreased by €12.4 million to €78.8 million (previous year: €91.2 million). Particularly as a result of lower provisions for complaints, guarantees and warranties, other provisions decreased slightly by €2.6 million to €22.8 million (previous year: €25.4 million). Current financial liabilities decreased by €12.2 million to €15.9 million largely due to the decrease in current account liabilities (previous year: €28.1 million). The finance lease liabilities included in this amounted to €1.8 million on the reporting date (previous year: €0.5 million). Trade payables decreased by €0.5 million to €23.8 million (previous year: €24.3 million). Other liabilities increased by €1.3 million to €9.7 million (previous year: €8.4 million).

NON-FINANCIAL PERFORMANCE INDICATORS

EMPLOYEES

The KAP Group employed a total of 2,809 employees as of 31 December 2019 (previous year: 2,974 employees). The decrease by 165 employees is particularly due to job cuts in the **engineered products** and **surface technologies** segments.

In Germany, the number of employees fell by 112 to 1,334 as of 31 December 2019 (previous year: 1,446 employees). In the Rest of Europe region, the KAP Group had 1,197 employees (previous year: 1,230 employees). In the North/South America region, the Group had 114 employees (previous year: 111 employees) and in the Asia region it had 129 employees (previous year: 148 employees). Germany is still the location where the largest proportion of our staff are employed. However, the continued internationalisation of the operating business has led to a decrease in the proportion of staff employed in Germany by 1.8 percentage points to 48.1% (previous year: 49.9%).

Selected key indicators on employees[1]

	2019	2018	Change (%)
By region			
Germany	1,334	1,446	–7.7
Rest of Europe	1,197	1,230	–2.7
North/South America	114	111	2.7
Asia	129	148	–12.8
Other regions	0	1	–100.0
Total	**2,774**	**2,936**	**–5.5**
By segment			
engineered products	948	1,046	–9.4
flexible films	326	326	0.0
surface technologies	761	810	–6.0
precision components	120	124	–3.2
it/services	619	630	–1.7
Total	**2,774**	**2,936**	**–5.5**

[1] Converted to full-time equivalents; as of the end of each financial year on 31 December.

Training and continuing education

The aim of the overarching personnel strategy is to position the KAP Group and its individual subsidiaries as attractive employers in an increasingly global competition for the best specialist staff and managers. We attach great importance to an innovative corporate culture and a working environment built on transparency, openness and trust. An important benchmark for our attractiveness as an employer is our employees' high level of loyalty to our industrial group.

The skills and competencies of our employees are of decisive importance for our sustainable and successful development, which is why we attach great importance to their continuous learning and individual development. In doing so, we focus on comprehensive continuing education and training programmes, and offer our employees internal development opportunities tailored to their abilities and potential.

We rely on a package of staff recruitment measures for the recruitment of motivated and high-performing employees. At our German locations, we offer training in a total of 17 different professions, covering a wide range of commercial, technical and process engineering professions as well as professions in selected IT and electrical sectors. As of 31 December 2019, we employed a total of 61 trainees (previous year: 58). Based on our subsidiaries' training programmes, we offer personal incentives such as the financing of apprenticeships to become a master craftsman or technician. Our junior managers are largely recruited from vocational academies, but also from universities. We rely on our many years of close cooperation with schools, vocational academies and universities here. For example, our subsidiaries award study and development projects and support master's theses in selected subject areas.

Diversity

We cultivate diversity among our employees. Through the combination of people from different cultural backgrounds with different abilities, experiences and ways of thinking, we gain a better understanding of markets and customer groups. This is an important prerequisite for the long-term success of our Group. In our industrial group, we attach great importance to a climate where diversity is practised and respect for the individual is an integral part of our corporate culture. We employ people from a wide variety of cultural backgrounds and countries of origin and with different religious affiliations. For example, in Germany alone we employee people from 30 nations.

Even though the proportion of women in the Group's total workforce, especially in our Eastern European locations, is over 50%, the proportion of women in the technical and scientific jobs that are important for us is too low. However, the proportion of female managers is encouraging. Women are represented at the level below senior management in almost all our companies and locations worldwide. The main emphasis here was primarily on commercial positions as well as on positions in sales and quality management.

Healthcare and occupational health and safety

We promote the health and safety of our employees by utilising comprehensive health management and by complying with the health and safety policies we have created on the basis of legal regulations and the specific requirements of our individual subsidiaries. Our health management programme is based on targeted analyses of clinical pictures in relation to the requirements of the various areas of activity in our subsidiaries. We carry out these analyses in partnership with occupational health doctors. Our goal is to reduce the burden on our employees and to reduce the risks that can arise from daily work and the working environment. This way, we can reduce absences by preventive means. Individual offerings in the areas of prevention, therapy and rehabilitation are an integral part of our health management programme. Our subsidiaries are obliged to comply with the established occupational health and safety guidelines at all times and to report occupational accidents immediately. This way, we ensure that we can take suitable measures and mitigate possible dangerous situations by preventive means based on comprehensive analyses of each individual accident.

REMUNERATION REPORT

Remuneration of the Management Board

Responsibility

The structure and determination of the Management Board's remuneration is the responsibility of the Supervisory Board.

Goals

The remuneration model for the Management Board is intended to be attractive in the competition for highly qualified leaders. As an incentive for successful work, the variable portion of the remuneration is to be highly dependent on the economic success of the KAP Group. The remuneration structure for the Management Board is in line with the remuneration system for employees and managers.

Remuneration elements

The remuneration of the Management Board contains fixed elements, variable elements and long-term incentives. In successful financial years, the factors that make up the variable element of remuneration enable the KAP Group to offer competitive income for the Management Board with a very high profit-sharing component. From 2019, earnings before interest, taxes, depreciation and amortisation (EBITDA) serves as a benchmark for the variable remuneration component. The share in profits was fixed in 2018.

KAP AG has maintained a virtual stock option programme with cash settlement since 2017 in which Mr Decker and Dr Riedel take part. On the start of his employment on 1 August 2017, Mr Decker was granted 100,000 virtual stock options that are earned over a period of four years on a one-time basis. On the start of his employment on 1 May 2018, Dr Riedel was promised 100,000 virtual stock options as of 1 November 2018 on a one-time basis. The virtual stock options are earned over a period of four years from the start of employment. The programme provides for the beneficiary to receive an entitlement to cash settlement from the company upon the exercise of the option. The exercise date is 31 July 2021 for Mr Decker and 30 April 2022 for Dr Riedel. The entitlement to cash settlement is equal to the difference between the average share price (Xetra trading, Deutsche Börse AG, Frankfurt am Main) of the last 20 trading days prior to exercising the option and the base value of €30 (Mr Decker) or €33 (Dr Riedel). The entitlement is limited to €40 per option. An adjustment is made for dividend distributions made since the granting of the virtual stock options and any dilution effects in the event of capital increases. Because capital measures took place between the granting of the virtual stock options and the reporting date, the number of virtual stock options increased to 227,570, of which 117,147 are attributable to Mr Decker and 110,423 to Dr Riedel.

As of the reporting date, the remaining term of the options was 19 months (Mr Decker) and 28 months (Dr Riedel). The income from the stock option programme attributable to the financial year amounts to €127,398, of which €92,000 is attributable to Mr Decker and €35,398 to Dr Riedel.

Name	Decker, Guido
Function	CEO
Assumption of office	1 August 2017
Left office	30 September 2019

Remuneration granted in € thousands	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	255	255	255	296	296	296
Fringe benefits [1] (company car)	12	12	12	16	16	16
Total fixed remuneration	**267**	**267**	**267**	**312**	**312**	**312**
One-year variable remuneration (incl. compensation)	617	617	617	100	100	100
Total variable remuneration (incl. compensation)	**617**	**617**	**617**	**100**	**100**	**100**
Stock option plan	**–**	**–**	**–**	**–**	**–**	**–**
Total remuneration	**884**	**884**	**884**	**412**	**412**	**412**

Remuneration received in € thousands	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	255	255	255	296	296	296
Fringe benefits [1] (company car)	12	12	12	16	16	16
Total fixed remuneration	**267**	**267**	**267**	**312**	**312**	**312**
One-year variable remuneration (incl. compensation)	717	717	717	100	100	100
Total variable remuneration (incl. compensation)	**717**	**717**	**717**	**100**	**100**	**100**
Stock option plan	**–**	**–**	**–**	**0**	**0**	**0**
Total remuneration	**984**	**984**	**984**	**412**	**412**	**412**

[1] The D&O insurance represents an additional fringe benefit granted.

	Riedel, Alexander, Dr
	CFO
	1 May 2018
	n/a

	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
	312	312	312	208	208	208
	11	11	11	7	7	7
	323	**323**	**323**	**215**	**215**	**215**
	125	0	125	67	67	67
	125	**0**	**125**	**67**	**67**	**67**
	–	**–**	**–**	**924**	**0**	**4,000**
	448	**323**	**448**	**1,206**	**282**	**4,282**

	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
	312	312	312	208	208	208
	11	11	11	7	7	7
	323	**323**	**323**	**215**	**215**	**215**
	60	60	60	0	0	0
	60	**60**	**60**	**0**	**0**	**0**
	–	**–**	**–**	**0**	**0**	**0**
	383	**383**	**383**	**215**	**215**	**215**

Name	Stahmer, Uwe
Function	CEO
Assumption of office	1 October 2019
Left office	n/a

Remuneration granted in € thousands	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	105	105	105	n/a	n/a	n/a
Fringe benefits [1] (company car)	1	1	1	n/a	n/a	n/a
Total fixed remuneration	**106**	**106**	**106**	**n/a**	**n/a**	**n/a**
One-year variable remuneration (incl. compensation)	–	–	–	n/a	n/a	n/a
Total variable remuneration (incl. compensation)	**–**	**–**	**–**	**n/a**	**n/a**	**n/a**
Stock option plan	**–**	**–**	**–**	**n/a**	**n/a**	**n/a**
Total remuneration	**106**	**106**	**106**	**n/a**	**n/a**	**n/a**

Remuneration received in € thousands	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	105	105	105	n/a	n/a	n/a
Fringe benefits [1] (company car)	1	1	1	n/a	n/a	n/a
Total fixed remuneration	**106**	**106**	**106**	**n/a**	**n/a**	**n/a**
One-year variable remuneration (incl. compensation)	–	–	–	n/a	n/a	n/a
Total variable remuneration (incl. compensation)	**–**	**–**	**–**	**n/a**	**n/a**	**n/a**
Stock option plan	**–**	**–**	**–**	**n/a**	**n/a**	**n/a**
Total remuneration	**106**	**106**	**106**	**n/a**	**n/a**	**n/a**

[1] The D&O insurance represents an additional fringe benefit granted.

Remuneration of the Supervisory Board

Remuneration system

The current remuneration system is set out in Article 13 of the Articles of Association. In addition to the reimbursement of expenses, the Supervisory Board receives fixed remuneration.

The Supervisory Board consists of five (previous year: six) members. With the amendment of the Articles of Association of 3 July 2019 (with entry in the commercial register on 19 July 2019), the basic remuneration is €25 thousand per member. The chairman of the Supervisory Board receives twice this basic remuneration. His deputy and the chairman of a committee receive 1.5 times this basic remuneration. Supervisory Board members who have only belonged to the Supervisory Board for part of the financial year receive lower remuneration in proportion to the length of their time as members. The remuneration was paid pro rata temporis. The members of the Supervisory Board received total remuneration of €87 thousand (previous year: €28 thousand).

EVENTS AFTER REPORTING PERIOD

On 22 January 2020, the Management Board and Supervisory Board decided on an extensive reorganisation of the **engineered products** segment. Operating activities with negative contribution margins will be discontinued and a sustainable improvement of profitability will be achieved in this segment. The measures agreed include the complete closure of the Fulda site whose focus is on the production of cord fabric, and of a site in the Czech Republic where in particular soft cords and raw twines are produced. In addition, another site in the Czech Republic, which manufactures tents and technical fabrics, is also to be sold. In the 2019 financial year, revenue of around €40 million and normalised EBITDA of €0.0 million was attributable to these activities. The restructuring measures are associated with an anticipated negative impact on EBITDA of around €14 million that will only impact development in the 2020 financial year. This is expected to lead to a decrease in revenue of €12.5 million compared to the original planning for 2020 without restructuring and to a decrease compared to the revenue in 2019 of €4.8 million and to an improvement in normalised EBITDA compared to 2019 of €10.0 million. The plan is to implement the measures in full in the 2020 financial year. The full-year effect on revenue and EBITDA will not be visible until the 2021 financial year. Group management expects revenue of around €122 million and EBITDA of €12.4 million for 2021. In addition, it anticipates both a reduction in customer concentration and increased diversification of the industrial sectors in which the segment's products are used. The effects described do not yet take account of the impact of the coronavirus pandemic.

We anticipate a negative impact on our business in Germany and abroad from the coronavirus pandemic. The further course of the epidemic represents an uncertainty factor that could not be conclusively assessed by the report preparation date. On 30 January 2020, the World Health Organisation (WHO) declared a Public Health Emergency of International Concern due to the outbreak of the coronavirus. Since 11 March 2020, the WHO has classified the spread of the coronavirus as a pandemic. The further course of the spread of the coronavirus and its consequences for the business development of KAP AG will be monitored on an ongoing basis. On the basis of the latest developments, KAP AG expects the increasing spread of the coronavirus and the containment measures needed to have a negative effect in all key markets. There continue to be risks in upstream and downstream processes. The estimates and assumptions known to KAP AG are taken into account and described in the forecast report. In addition, no significant further negative impacts are known or foreseeable at the current time. Further negative impacts are, however, possible over the course of the year. Otherwise, no events of particular significance that are expected to have a significant influence on the financial position, cash flows or financial performance of the KAP Group or KAP AG occurred after 31 December 2019.

FORECAST, OPPORTUNITY AND RISK REPORT

FORECAST REPORT

INTRODUCTION

All information provided in the forecast report fundamentally relates to the 2020 financial year unless otherwise noted and represents our own estimates and expectations.

The forecast presented below does not take account of the impact of the coronavirus pandemic, which at the current time cannot yet be foreseen.

ECONOMIC EXPECTATIONS

It is anticipated that economic expectations will deteriorate significantly worldwide as a result of the outbreak of the coronavirus pandemic. As of the date of the report, no reliable data that will allow the formulation of a reliable outlook for the development of the economy as a whole is available yet.

SUMMARY OF THE ECONOMIC FORECASTS BEFORE THE OUTBREAK OF THE CORONAVIRUS PANDEMIC

Economic environment

%	Growth [1] 2019	Growth [1] 2020
World	2.9	3.3
Eurozone	1.2	1.3
Germany	0.6	1.1
USA	2.3	2.0
Emerging economies	3.7	4.4

[1] Real gross domestic product (GDP) growth.
Sources: International Monetary Fund (IMF) – World Economic Outlook Update of 20 January 2020; ifo Institute – Joint Economic Forecast of autumn 2019: "Industrie in der Rezession – Wachstumskräfte schwinden".

MAJOR MARKET TRENDS

Segments operate in a large number of attractive market niches and have a strong market position there. Although development within these market niches is generally relatively stable and unaffected by the general economic situation, our segments' operating development is impacted by particular dynamic downwards trends, such as in the automotive sector or reticence by important sectors of industry to invest. In light of the situation to be reassessed due to the coronavirus pandemic, for 2020 we expect the economic environment to be very challenging, particularly for our cyclical or automotive-related operations. A concrete assessment of market trends is not currently possible.

FUTURE DEVELOPMENT OF THE KAP GROUP (ON THE BASIS OF THE CORPORATE PLANNING VALID BEFORE THE CORONAVIRUS PANDEMIC)

For the 2020 financial year, we plan to continue consistently implementing our segment strategy. We also want to carry on continuously developing our segments through targeted investments and optimisations. Increasing profitability is the clear strategic focus. At the same time, we want to lay the foundations for future growth in attractive market niches through increased research and development activities.

In the **engineered products** segment, we are systematically eliminating operating activities with negative contribution margins and are closing production sites where, in particular, cord fabric, soft cords and raw twines are produced. Overall, these measures mean we are relinquishing revenue of around €40 million. The anticipated expenses in the single-digit million range will adversely impact earnings growth in the 2020 financial year accordingly. The engineered products segment will be restructured to focus on high margin products and will remain an essential part of the KAP Group.

For the **flexible films** segment, we expect a continuation of the ongoing growth trend in this segment's major subsidiaries in the 2020 financial year.

In the **surface technologies** segment, we want to significantly expand the production capacity that was reduced by the fire damage at the Heinsdorfergrund site from the second half of 2019. We are planning to invest a total of around €21 million to this end. We currently expect the new production capacity to be available from as early as 2020 and to have positive effects on revenue and earnings development.

In the **precision components** segment, we want to continue on the strategic path we have embarked on, continue to reduce the share of revenue that depends on the combustion engine and push ahead with the shift towards electric drive systems. This reduces the dependence on the economic development in the automotive sector and increases the share of revenue from future-oriented products, which tend to have higher margins.

Our **it/services** segment should continue to benefit from the digitalisation process in the industrial and services sector in 2020. However, we expect a slight decrease in revenue but a slight increase in adjusted EBITDA in the 2020 financial year.

2020 goals [1]

in € millions

Group	Actual 2019	Forecast 2020
Revenue	372.8	Stable
Normalised EBITDA	31.9	Slight increase
Investments [2]	17.4	Significant increase
engineered products		
Revenue	150.7	Significant decrease
Normalised EBITDA	2.4	Slight increase
Investments [2]	2.9	Significant increase
flexible films		
Revenue	89.2	Slight increase
Normalised EBITDA	10.1	Slight increase
Investments [2]	2.4	Significant increase
surface technologies		
Revenue	64.1	Slight increase
Normalised EBITDA	13.7	Significant increase
Investments [2]	7.3	Significant increase
precision components		
Revenue	49.5	Slight decrease
Normalised EBITDA	3.4	Stable
Investments [2]	2.5	Significant increase
it/services		
Revenue	22.3	Slight decrease
Normalised EBITDA	3.0	Slight increase
Investments [2]	1.5	Significant decrease

[1] The forecast presented below does not take account of the impact of the coronavirus pandemic, which at the current time cannot yet be foreseen.

[2] Explanatory notes on the expected development: The note "slight increase" corresponds to a change of between 1 and 10%, whereas "significant increase" denotes a change of 10% or more and "stable" describes a change of /–1%. The note "slight decrease" corresponds to a change of between –1 and –10%, whereas "significant decrease" denotes a change of –10% or more.

[3] Intangible assets and property, plant and equipment.

OVERALL STATEMENT OF THE MANAGEMENT BOARD AND FORECAST OF FINANCIAL PERFORMANCE FOR 2020

The economic and social environment in which our society currently finds itself remains dynamic and without any historic precedent. An economic downturn due to the effects of COVID-19 was previously beyond our planning scenarios. Moreover, the further course of the pandemic cannot currently be reliably predicted. On the basis of current news, the Group's revenue and earnings performance in the financial year is, however, expected to decrease significantly. The background to this is, in particular, the numerous production shutdowns in the automotive sector. These affect the **engineered products, surface technologies** and **precision components** segments. In addition, lower demand in the field of construction and renovation could negatively impact the **flexible films** segment's business development. The **it/services** segment's development in the remainder of 2020 will depend on customers' willingness to complete ongoing projects and win new customer projects dependent on increasing or declining consequences of the coronavirus crisis. Initial countermeasures and mitigation measures have already been introduced or are in preparation.

The effects of the coronavirus crisis on unit sales and the resulting earnings figures cannot currently be conclusively assessed. We presently anticipate increasing normalisation of the sales situation in a few weeks. Taking account of the current developments in the current crisis, the Group expects the following developments of the key financial figures compared to the 2019 financial year:

	2020 forecast (incl. coronavirus)
Revenue	Significant decrease
EBITDA	Significant decrease
Investments	Stable

The low revenue expectations from the automotive industry compared to the original planning have a significant influence here. This will primarily affect the **engineered products, surface technologies** and **precision components** segments. The **flexible films** segment could be affected in particular by lower demand in the field of construction and renovation. The **it/services** segment's development in the remainder of 2020 will depend on customers' willingness to complete ongoing projects and win new customer projects dependent on increasing or declining consequences of the coronavirus crisis.

In addition, the KAP Group's actual business development may also differ from current expectations as a result of the risks and opportunities specified below in the risk and opportunities report.

Based on various opportunity and risk scenarios, particularly for the sales situation and supply situation in the supply chains and in relation to the availability of employees, the possible negative effects and impact of countermeasures on the Group's financial performance and financial situation will be reassessed.

OPPORTUNITY AND RISK REPORT

RISK MANAGEMENT SYSTEM

As an internationally active industrial group, the KAP Group is exposed to numerous internal and external developments and events. We want to identify the risks arising from this at an early stage and take the necessary measures in the areas affected in good time so we can sustainably increase the value of the Group. We support this overarching goal with our Group-wide risk management system, which is a key instrument of our corporate governance. Risks are defined as events and possible developments that lead to potential deviations from the plan and can therefore have a negative impact on the financial situation and financial performance or the reputation of the Group.

We cover all strategic, operational and financial risks as well as possible compliance risks with our Group-wide risk management system, which we continuously optimise and develop. The stated goal is to identify, assess, monitor and adequately manage risks completely at an early stage. In our Group and segment companies, the risk management staff regularly review relevant processes, procedures and developments for existing risks and record these comprehensively at an early stage on the basis of a defined risk catalogue. These are essentially broken down into the following key risk areas: strategic risks, company-specific risks, financial risks and compliance risks.

The relevant risks are assessed taking into account the risk potential and the probability of occurrence:

Classification of risks – risk potential

in € millions	Effect on operating result (EBIT) per financial year	Decrease in cash and cash equivalents per financial year
Low	< 0.4	< 0.4
Medium	0.4–1.0	0.4–1.0
High	> 1.0	> 1.0

Classification risks – probability of occurrence

	Frequency of occurrence
Low	Less than once every 5 years
Medium	Usually every 1 to 5 years
High	Usually once a year

To assess the risks, we record the so-called gross risks and multiply them by the probability of occurrence analysed for this specific risk. On this basis, we determine the net expected value of the potential risk. The calculation takes place in a central system from which we can generate comprehensive risk reports. This means we always have a detailed overview of all risks that could materially impair the KAP Group's financial position, cash flows and financial performance. The risk managers responsible for the individual reporting units undertake the formal documentation of the reporting at the end of the year using uniformly defined standards. In addition to risk identification, risk recording and risk reporting, risk managers' core tasks include the early introduction and implementation of individual measures that serve to avoid or limit risks. An assessment of the information recorded and the classification of the risks are carried out centrally in the Group.

In principle, risk management is the responsibility of the Management Board. Among other methods, management reporting serves to provide information on the current risk situation. This consists of comprehensive reporting, projections and updated planning, including investment planning. In addition, information and key figures that each segment or segment company uses individually for operational management are used. Accordingly, risks are reviewed and summarised on two levels. Beyond pre-defined reporting routines, the risk managers have an immediate obligation to report to the Management Board as soon as an identified risk could impact EBIT by more than €1.0 million.

ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) OF THE GERMAN COMMERCIAL CODE (HGB)) AND EXPLANATORY REPORT

Together with the risk management system and the compliance system, the internal control and risk management system relating to the accounting process in the Group (ICS) is an integral part of corporate governance. The aim of the ICS is to implement controls to ensure sufficient certainty that the KAP Group's internal and external accounting is always in compliance with the rules and sufficient certainty of valid numerical mapping of the business processes.

Our accounting guidelines contain comprehensive organisational measures and clearly defined technical processes that include all Group companies. These are the basis for the Group-wide uniform application of International Financial Reporting Standards (IFRS). We have an internet-based financial portal that guarantees Group-wide access to all documents and resources relevant for the accounting process. We review the latest developments in IFRS centrally for relevance and, if necessary, promptly represent these in our internal accounting guidelines. We constantly monitor the activities of legislators and other organisations with regard to possible upcoming changes in international accounting standards to be able to initiate targeted measures for smooth implementation even before the regulations come into force. Intensive and early training of employees who are responsible for preparing internal and external accounts is an important measure here. These ad hoc training sessions supplement our ongoing training and the additional individual support provided to our subsidiaries by a professionally qualified contact at the Group level.

We achieve the complete and almost simultaneous compilation of the financial statements of our segment companies through Group-wide use of uniform consolidation software. Binding mandatory disclosures ensure that all the prescribed information is recorded within the individual subsidiaries. We largely rule out inconsistencies in the figures through intelligent plausibility checks. We ensure the conformity of the disclosures by comparing the reporting data of the financial statements with the risk management system. Prudent and forward-looking scheduling with regard to reporting and publication obligations combined with early communication makes an organisational contribution to orderly process flow.

RISK REPORTING IN RELATION TO THE USE OF FINANCIAL INSTRUMENTS

We actively manage the interest rate risks and currency risks associated with our operating activities. Our goal is to reduce the negative effects of fluctuations in exchange rates, especially of the US dollar, and in interest rate levels. We mainly use letters of credit to minimise the risks from planned transactions for goods and services.

We use derivatives only to a very limited extent. The same also applies to forward exchange transactions for hedging currency risks. Only in the context of hedging relationships do we use forward exchange transactions to hedge an underlying transaction that has already been recognised (fair value hedge). Constant risk control is undertaken here. Counterparties are always domestic and foreign banks with impeccable credit ratings.

RISKS AND OPPORTUNITIES

The following table contains all material opportunities and risks that, from today's perspective, could influence the financial position, cash flows, financial performance and reputation of the KAP Group. The significant risk areas are assessed according to risk potential and probability of occurrence. In addition to the opportunities and risks described presented, other factors that are currently not yet known or that we do not yet consider to be material may affect our business activities. Unless explicitly stated otherwise, the opportunities and risks presented generally apply to all business segments.

Overview of significant risk areas

Risk categories	Risk potential	Probability of occurrence	Change compared to previous year
Strategic risks			
Political, regulatory and legal conditions	Low	Low, medium	→
Corporate governance	Medium	Low, medium	→
Portfolio risks	Low	Low	↑
Environmental risks	Medium	Low	↓
Company-specific risks			
Sales and marketing	Low	Medium	↓
Materials management	Medium	Medium	↑
Personnel	Medium	Low, medium	→
IT/Organisation	Medium	Medium	↓
Financial risks			
Liquidity risk	High	Medium	↑
Interest rate risk	Low	Low	→
Currency and inflation risk	Medium	Medium	↓
Compliance risks			
Legal risks	Medium	Medium	↓

↑ improved → unchanged ↓ worse

Strategic risks

Political, regulatory and legal conditions

The operating development of our segment companies depends on the development of the macroeconomic environment. In addition to economic risks, for example as a result of an unexpected economic downturn, increases in energy and commodity prices may represent risks for operating development. We reduce dependence on the development of individual sectors through diversification across five segments and a broad product portfolio within the segments, with which we address various areas of application. Dynamic decreases in demand from individual sectors of industry may adversely impact revenue and earnings development. The high level of specialisation and the strong market position within attractive niches reduce the general economic risk for our segments without being able to completely eliminate it. Other than general effects on the economy, we do not expect any particular impact on our segments or segment companies.

Corporate governance

Risks arising from the management of our Group companies stem in particular from our decentralised organisational structure. Together with the segment managers, the Management Board periodically agrees the objectives and framework conditions of their business activities. The segment managers act independently when it comes to the detailed implementation of these requirements. We minimise the risk of deviating from our plans and undesirable developments in individual segments and segment companies through comprehensive controlling, compliance and risk management systems. These are implemented in corporate processes throughout the Group and are continuously further developed on an individual basis.

Portfolio risks

Misjudgements of the future market development or business development of the individual segments and segment companies may lead to portfolio risks. We counter these potential risks with comprehensive internal and external analyses of the markets in which we operate. Further risks may arise from misjudgements regarding the strategic positioning of our segments and segment companies. We counter these risks through regular strategy discussions with our segment managers and the managing directors of our segment companies and carry out intensive market and competition monitoring at all management levels. We subject all strategic investments in new product or market areas to a critical analysis with regard to the expected revenue and earnings potential that could arise from the realisation of the investments. The measures described mesh together, meaning that we always have a comprehensive overview of the aggregate portfolio risks arising from the risk situation of the individual segments.

Portfolio risks can also arise when growing our existing segments through acquisitions. When acquiring companies, it is possible that hidden risks or misjudgements of various aspects may adversely affect a newly acquired segment company's economic success. To minimise this possibility, we carry out a comprehensive review of the legal and economic circumstances and market environment of possible acquisition candidates. In addition, our contracts always include the greatest possible guarantees and indemnities when a company is acquired. However, we cannot completely rule out residual risk.

Environmental risks

KAP AG's environmental management includes a number of relevant regulations to minimise environmental risks. Certification in accordance with ISO 14001 has been obtained at some production sites.

The operating processes of the KAP Group's subsidiaries in particular are associated with risks that could lead to an environmental impact. In addition, there is a risk that important customers will not continue the business relationship if the Group cannot prove compliance with environmental legislation and the continuous improvement of measures to protect the environment. Corresponding organisational units at the respective sites ensure compliance with the applicable laws and regulations and the continuous identification of further technical possibilities for limiting environmental risks. Action areas include, for example, improving the energy efficiency of production facilities. Nevertheless, it cannot be fully ruled out the Group's operations will lead to environmental damage or renovation projects will be associated with higher costs than originally planned.

The increasing relevance of sustainability considerations in many industries represents an opportunity. When selecting our suppliers, this aspect is therefore a key factor when assessing a company's suitability as a business partner.

Company-specific risks

Sales and marketing

Risks from sales and marketing can arise in particular from dependence on the development of individual regions and major customers. We are gradually reducing regional dependence through the strategic expansion of our segment companies' international business. In the year under review, we generated 59.4% of our revenue abroad, meaning that our dependence on the German market has fallen appreciably in recent years. We are minimising our dependence on individual large customers by intensifying our sales and development activities, which enable us to open up new product groups, new fields of application, new markets and new customers. As of 31 December 2019, no product, service group or single customer generated more than 10% of our consolidated revenue.

Materials management

Depending on the current economic environment, the purchase prices for raw materials, consumables and supplies may fluctuate sharply. With regard to the respective market situation, we try to pass on the costs arising from increased purchase prices to our customers. In addition, as far as possible, we pass on materials management risks to our customers through different contract lengths and appropriate contract clauses.

We require our suppliers to comply with clearly defined quality and manufacturing standards. To this end, our subsidiaries conduct strict quality controls on all incoming raw materials, enabling us to react to breaches of our agreed quality and manufacturing standards in good time before the start of production. In the event of objections, we immediately demand rectification or, if fundamental defects or delivery problems have occurred, immediately switch to other suppliers in our existing network.

Personnel

Personnel risks may arise in recruitment and retention and in the development of specialists and managers. We are increasingly in competition with other medium-sized and international companies for highly qualified specialists and managers. In addition, demographic change is leading to a reduction in the number of workers available. We counter this risk with a comprehensive package of measures to motivate, develop and promote our employees in the Group and in our segment companies. To cover the need for suitable specialists and managers, we offer a wide range of traineeships and university places as part of a dual work-study programme. Another important factor in limiting personnel risks is the establishment and development of a modern corporate culture within the Group and its individual segment companies. Depending on short- or medium-term economic fluctuations and fluctuations in demand, we may primarily respond with options such as the closure of flexitime accounts, reduced working hours, letting fixed-term contracts expire or, in extreme cases, with job cuts.

IT/Organisation

The security of our IT systems is very important to us. Opportunities for misuse particularly arise from increasing interconnectedness. Misuse can lead to failure of central IT systems, loss of integrity of confidential data, manipulation of IT systems or damage as a result of virus attacks. To minimise this risk, we regularly invest in our IT systems and use virus scanners and firewall systems. We have also implemented targeted access controls.

Financial risks

Risk of default

In our operating business and in certain financing activities, we are exposed to the risk that the counterparty will not fulfil its contractual obligations. To minimise the risk of default from financing activities, we conclude significant financial transactions with credit risk only with banks of good credit standing. In addition, we use a fixed group of five banks (as of 31 December 2019) for financing and minimise possible losses that could arise from a default through this broad diversification. The operational risk of default consists in particular in the failure of our segment companies' customers to pay existing trade receivables. We counter this risk through strict and effective accounts receivable management that is organised on a decentralised basis. In addition, where necessary, we implement further risk-reducing measures, such as taking out credit insurance.

Liquidity and credit risk

As part of our comprehensive liquidity management, we identify risks from fluctuations in cash flows at an early stage. The basis of our liquidity management is a liquidity reserve, which we maintain in the form of bank balances and agreed lines of credit. As of 31 December 2019, the KAP Group had cash and cash equivalents of €5.1 million and lines of credit totalling €153.9 million, of which we have drawn €78.0 million. With the exception of our locations in China, India, Switzerland and South Africa, our subsidiaries are linked to a cash pooling system.

Borrowing is carried out centrally by KAP AG. This is based on careful and forward-looking planning of the necessary financial requirements, which are deduced from the operating business and the investments to be made. The optimisation of working capital represents a key internal source of financing. We actively manage the working capital and continuously monitor the relevant influences accordingly. For external sources of financing, we ensure that our financing partners have first-class ratings. We use local financial institutions or subsidiaries or affiliates of financial institutions with which we already work together in Germany for hedging the transactions at our sites in China and India. We reduce ongoing currency risks by borrowing in the relevant national currency. Various covenants have been agreed for some of the existing financial liabilities. Compliance with these covenants is continuously monitored centrally. Any breach of the agreements made could lead to termination of financing by the banks. However, it is routinely the case that, where necessary, such a breach is solved through negotiation with the banks. In the 2019 financial year, the criteria of the covenants were met.

Interest rate risk

Our financing consists overall of a balanced mix of short- and long-term financing instruments. In the long-term area we use redemption loans and in the short-term area we use traditional overdraft facilities, which are mainly tied into the syndicated financing. Euribor is largely used as the base rate, although there is a floor in the event of negative Euribor. Changes in the market interest rate thus lead to higher interest rates to be paid, and therefore mean a corresponding interest rate risk. This risk is actively managed by our Treasury department. We do not generally hedge through the use of derivative instruments.

Currency and inflation risk

Our segment companies' international business activities mean we are exposed to risks from fluctuations in exchange rates. In the 2019 fiscal year, we conducted a significant proportion of our business with customers in the US dollar zone, accounting for a 12.4% share of the KAP Group's revenue. By implementing US dollar cash pooling, we mitigate the currency risks of the US dollar against the euro through natural hedging, meaning that we make the risks calculable. In addition, we are mainly able to invoice our customers in euros and thus minimise the corresponding risks arising from a change in the exchange rate between the US dollar and the euro. As in previous years, management and reduction through derivatives or other currency hedging transactions was thus only necessary in 2019 to a very limited extent.

Compliance risks

The focus of the KAP Group's compliance management system is particularly on the areas of corruption prevention, competition law, sanctions and export control, IT security, data protection and taxes. In addition to the compliance system that we have introduced across the Group, we have established a dedicated code of conduct for our employees. This way, we ensure compliance with laws and regulations. We continuously check both tools for efficiency and constantly develop them further. We take into account legal changes or further-reaching regulatory changes and identified weaknesses from the active conduct of our employees. We raise our employees' awareness of legally compliant behaviour through training. These measures actively contribute to avoiding the occurrence of potential reputational risks as far as possible.

Legal risks

The possible risks from legal disputes or proceedings particularly include risks in the areas of warranty and product liability, competition law, patent law and contract law. These risks may have a negative impact on our operating business and on the reputation of our Group, and may result in high costs. We reduce risks that could arise from warranty and product liability claims through efficient contract and quality management, and the creation of sufficient provisions. As of 31 December 2019, we recognised provisions totalling €10.0 million for this purpose. There were no ongoing or pending legal disputes in the KAP Group that could have a significant impact on its financial position, cash flows or financial performance as of the reporting date.

Trademark protection

We protect our intellectual property and thus the investments in our new products and processes as far as possible through utility model applications or patent applications. The need to apply for trademark protection measures is eliminated for joint development of products or applications with our customers, or in our role as a Tier 2 supplier, which we assume in particular in the **precision components** segment.

Special segment-specific risks

For the restructuring in the **engineered products** segment, there is a risk that the measures taken will take longer and entail higher costs, meaning their actual benefit is lower than estimated, they will take effect later than expected or they will have no effect at all. The segment's profitability is influenced by the savings actually achieved and the segment's ability to implement these ongoing projects sustainably.

Overarching risks

The outbreak of the coronavirus could result in macroeconomic risks that may lead to significant decreases in global economic growth. Risks for the KAP Group may influence revenue and earnings development, but also lead to considerable adverse effects on production and the procurement market.

OPPORTUNITY MANAGEMENT

Our business success is significantly influenced by the early identification of opportunities and the development of targeted measures for taking advantage of these opportunities. In a dynamic market environment, our segment strategy offers the KAP Group numerous opportunities to successfully develop the Group. Opportunities are defined as events and possible developments that lead to additional potential and positive deviations from a previously defined target and can therefore have a positive impact on the financial situation, financial performance and reputation of the Group.

To identify opportunities at an early stage, we use various market observation and analysis tools. These particularly include market studies of areas in which we already operate with our segment companies or that could be attractive for us due to the existing competition structures and growth prospects. The Management Board, segment managers and the individual managing directors of our segment companies work closely together in the context of our opportunity management. As part of annual business planning and target agreements, the Management Board puts the opportunities in concrete terms and coordinates them with the managers responsible. We want to generate added value for our stakeholders with a balanced relationship between opportunities and risks. Opportunities arising at the operating level are managed on a decentralised basis by our segment managers and the managing directors of our segment companies. This way, we can act flexibly and identify, assess and, where applicable, systematically exploit opportunities at an early stage.

Strategic opportunities for the KAP Group consist particularly of the systematic implementation of the segment strategy and further targeted development of our Group through appropriate M&A activities. Tapping new regional markets opens up new opportunities to our segments. Our innovation and the further acceleration of product developments offer the opportunity to place our products in additional application environments. The strategic focus is particularly on future-oriented fields such as environmental protection, energy efficiency or e-mobility, which are relevant for all important industrial sectors. Our segment strategy additionally offers the opportunity to realise significant efficiency and earnings potential by optimising capacity utilisation at individual sites, pooling production capacities, optimising our product portfolio and intensifying the exchange of knowledge in our segments. Another important cornerstone of our segment strategy is increased investment in the research and development of innovative products, product groups and processes. This will create additional growth opportunities. We want to achieve the further development of our segments both through suitable internal measures and through targeted expansion through M&A activities. Our comfortable financing and liquidity situation means we have the ability to act in the M&A market at any time and take advantage of relevant opportunities to strengthen our Group externally.

OVERALL STATEMENT OF THE MANAGEMENT BOARD ON THE OPPORTUNITY AND RISK SITUATION

The assessment of the overall risk situation is the result of a consolidated assessment of all material individual risks and superordinate risk categories. From the Management Board's perspective, at the time of publication of this report, no individual or aggregate risks have been identified that could endanger the continuation of the KAP Group as a going concern.

The outbreak of the coronavirus could result in macroeconomic risks that may lead to a significant decrease in global economic growth. Resulting risks for the KAP Group may adversely affect the development of revenue, earnings and in particular liquidity and may lead, for instance, to a considerable negative impact on production and the procurement markets. If the sales situation in all markets does not normalise again after a few weeks, further effects on revenue, earnings, upstream and downstream processes and, in particular, a postponement or the collectability of receivables may arise, neither the length nor impact of which can be predicted at the current time. KAP AG is monitoring the situation carefully and taking appropriate measures.

We are convinced that we will be able to systematically exploit the opportunities arising from our business activities in the future and continue to successfully overcome the challenges arising from the risks described.

OTHER MANDATORY DISCLOSURES

DECLARATION ON CORPORATE GOVERNANCE

The declaration on corporate governance in accordance with sections 289f and 315d of the German Commercial Code (HGB) can be found on our website at https://www.kap.de/en/investor-relations/corporate-governance/corporate-governance-statement.

NON-FINANCIAL REPORT

The separate non-financial Group report to meet the requirements of the CSR Directive Implementation Act at the Company and Group level pursuant to sections 315b and c of the German Commercial Code (HGB) in conjunction with sections 289b to e HGB is available at https://www.kap.de/en/company/vision-values/non-financial-group-statement.

DISCLOSURES RELEVANT TO TAKEOVERS IN ACCORDANCE WITH SECTION 289A (1) AND SECTION 315A (1) OF THE GERMAN COMMERCIAL CODE (HGB) AND EXPLANATORY REPORT OF THE MANAGEMENT BOARD IN ACCORDANCE WITH SECTION 176 (1) SENTENCE 1 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

COMPOSITION OF THE SUBSCRIBED CAPITAL

As of 31 December 2019, the Company's share capital amounted to €20,176,917.80, divided into 7,760,353 no-par-value bearer shares with a calculated proportion of the share capital of €2.60 each. Each share grants the same legal rights and one vote at the Annual General Meeting. There are no different classes of shares.

RESTRICTIONS RELATING TO VOTING RIGHTS AND THE TRANSFER OF SHARES

The exercise of voting rights and the transfer of shares are governed by the statutory provisions. In accordance with section 136 (1) of the German Stock Corporation Act (AktG), these relate primarily to the vote on annual approval in respect of shares held directly or indirectly by members of the Management Board or Supervisory Board, as well as the – at least temporary – non-existence of voting rights in the event of violations of the notification obligations pursuant to section 33 (1) or (2), section 38 (1) or section 39 (1) of the German Securities Trading Act (WpHG). KAP AG's Articles of Association do not provide for any restrictions on voting rights or the transfer of shares. The Management Board is not aware of any special contractual restrictions on voting rights or the transfer of shares.

SHAREHOLDINGS EXCEEDING 10% OF THE VOTING RIGHTS

Project Diamant Bidco AG, Frankfurt am Main, Germany, and FM Verwaltungsgesellschaft mbH, Stadtallendorf, Germany, had shareholdings in KAP AG exceeding 10% of the voting rights as of 31 December 2019. Further information can be found in section 49 of the notes (related party transactions) and on page 156.

SHARES WITH SPECIAL RIGHTS CONFERRING POWERS OF CONTROL

No shareholder is entitled to special rights that confer powers of control.

TYPE OF CONTROL OF VOTING RIGHTS IN THE EVENT THAT EMPLOYEES HAVE SHAREHOLDINGS AND DO NOT EXERCISE THEIR CONTROL RIGHTS DIRECTLY

Employees exercise their voting rights and control rights arising from their shareholdings in KAP AG in accordance with legal requirements and the Articles of Association.

APPOINTMENT AND REMOVAL FROM OFFICE OF MEMBERS OF THE MANAGEMENT BOARD AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The members of KAP AG's Management Board are appointed and removed from office exclusively in accordance with the legal requirements pursuant to sections 84 and 85 of the German Stock Corporation Act (AktG). Pursuant to Article 5 of the Articles of Association, the Management Board of the Company consists of two or more members. The number is determined by the Supervisory Board.

Pursuant to Article 119 (1) 5 and Article 179 (1) sentence 1, the Articles of Association may only be amended by resolution of the Annual General Meeting. Pursuant to Article 17 of the Articles of Association in conjunction with section 179 (2) and section 133 (1) AktG, the resolution of the shareholders at the Annual General Meeting on amendments to the Articles of Association is generally passed by a simple majority of votes cast, unless other mandatory legal requirements exist. Amendments to the Articles of Association that only affect the wording may be made by the Supervisory Board in accordance with Article 12 of the Articles of Association.

POWERS OF THE MANAGEMENT BOARD TO ISSUE OR REPURCHASE OWN SHARES

Pursuant to Article 4 (4) of the Articles of Association, KAP AG's Management Board is authorised, with the consent of the Supervisory Board, to increase the Company's share capital until 7 July 2022 by issuing up to 188,982 new no-par-value bearer shares, each with a proportionate interest in the share capital of €2.60, in return for contributions in cash or in kind (authorised capital 2017). Shareholders are generally to be granted subscription rights. However, with the approval of the Supervisory Board, the Management Board is authorised to exclude this subscription right in certain cases. Further details can be found in Article 4 (4) of KAP AG's Articles of Association, which can be accessed at any time on the Company's website and in the electronic register of companies.

The Annual General Meeting on 7 July 2017 authorised the Company to acquire own shares – until 7 July 2022 – amounting to up to 10% of the share capital in existence at the time the resolution was adopted. The details are set out in the authorisation resolution adopted by the Annual General Meeting on 7 July 2017 (agenda item 14). As of 31 December 2019, KAP AG had not made use of this resolution.

MATERIAL AGREEMENTS THAT ARE CONDITIONAL ON A CHANGE OF CONTROL IN THE EVENT OF A TAKEOVER OFFER

There are no material agreements of the Company that are conditional on a change of control in the event of a takeover offer.

COMPENSATION AGREEMENTS IN THE EVENT OF A TAKEOVER OFFER

There are no compensation agreements between the Company and the members of the Management Board or individual employees that take effect in the event of a takeover offer.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

FROM 1 JANUARY TO 31 DECEMBER 2019

in € thousands	Notes	2019	2018 [1]
Revenue	(28)	**372,803**	**389,829 [2]**
Change in inventories and other own work capitalised		–1,863	3,676
Total performance		**370,941**	**393,505**
Other operating income	(29)	29,672	14,504
Cost of materials	(30)	–203,808	–219,671
Personnel expenses	(31)	–100,409	–92,928
Depreciation and amortisation of intangible assets, property, plant and equipment and investment property	(32)	–46,749	–24,974
Other operating expenses	(33)	–60,226	–57,484
Result from divested assets and liabilities	(34)	–	18
Operating result		**–10,580**	**12,969**
Interest result	(35)	–4,657	–4,219
Other financial result	(36)	–1,253	–996
Financial result		**–5,910**	**–5,214**
Earnings from continuing operations before income taxes		**–16,490**	**7,754**
Income taxes	(37)	–966	–4,686
Earnings from continuing operations		**–17,456**	**3,068**
Earnings from discontinued operations after taxes	(38)	3,337	11,154
Consolidated annual result after taxes		**–14,119**	**14,222**
Result share of non-controlling interests	(39)	74	25
Consolidated annual result of KAP AG shareholders		**–14,044**	**14,247**
Undiluted earnings per share (EUR)			
Earnings from continuing operations		–2.25	0.43
Earnings from discontinued operations		0.43	1.55
		–1.82	**1.98**
Diluted earnings per share (in EUR)			
Earnings from continuing operations		–2.25	0.43
Earnings from discontinued operations		0.43	1.55
		–1.82	**1.98**

As the figures are presented in € thousands, the numbers may not add up due to rounding.
[1] Restated due to error correction.
[2] Revenue including discontinued operations amounted to €422,339 thousand in 2018.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS

AT 31 DECEMBER 2019

in € thousands	Notes	2019	2018 [1]
Consolidated result after taxes		**–14,119**	**14,222**
Unrealised gains from currency translation		821	–13
Unrealised gains from the disposal of available-for-sale financial assets		–	–
Items that may be reclassified to the statement of income in the future		**821**	**–13**
Actuarial gains from defined-benefit pension plans		–2,608	–356
Deferred taxes on actuarial gains/losses from defined-benefit pension plans		782	107
Items that will not be reclassified to the statement of income in the future		**–1,826**	**–249**
Other comprehensive income after taxes		**–1,005**	**–262**
of which other comprehensive income after taxes attributable to non-controlling interests		–7	33
of which other comprehensive income after taxes attributable to shareholders of KAP AG		–998	–295
Total comprehensive income		**–15,124**	**13,960**
of which consolidated total comprehensive income attributable to non-controlling interests		–81	8
thereof attributable to shareholders of KAP AG		–15,043	13,952

As the figures are presented in € thousands, the numbers may not add up due to rounding.
[1] Restated due to error correction.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

in € thousands	Notes	31/12/2019	31/12/2018 [1]	01/01/2018 [1]
ASSETS				
ASSETS				
Non-current assets				
Intangible assets	(8)	35,417	41,641	23,015
Property, plant and equipment	(9)	161,904	169,026	152,789
Investment property/properties	(10)	4,368	4,678	4,881
Financial assets accounted for using the equity method	(11)	0	0	0
Other financial assets	(12)	1,296	1,374	1,260
Deferred tax assets	(13)	5,388	5,802	6,692
		208,374	**222,521**	**188,636**
Current assets				
Inventories	(14)	59,902	67,047	72,058
Trade receivables	(15)	58,950	62,935	64,300
Income tax refund claims	(16)	2,270	2,631	2,329
Other receivables and assets	(17)	12,063	6,400	10,294
Cash and cash equivalents	(18)	5,077	11,727	10,079
		138,262	**150,740**	**159,061**
Non-current assets held for sale and discontinued operations	(19)	**–**	**–**	**–**
		346,636	**373,261**	**347,697**

in € thousands	Notes	31/12/2019	31/12/2018[1]	01/01/2018[1]
LIABILITIES				
EQUITY AND LIABILITIES				
Equity and reserves				
Subscribed capital		20,177	20,177	17,224
Capital reserve		86,840	86,840	48,811
Reserves/revenue reserves		–16,442	–15,358	–15,088
Net result		68,413	97,992	97,486
Equity attributable to shareholders of KAP AG		**158,988**	**189,649**	**148,433**
Non-controlling interests	(19)	2,017	2,400	5,365
		161,005	**192,049**	**153,799**
Non-current liabilities				
Provisions for pensions and similar obligations	(21)	19,900	18,080	18,480
Non-current financial liabilities	(22)	78,143	59,399	45,733
Deferred tax liabilities	(13)	8,550	12,229	6,603
Other non-current liabilities	(23)	221	349	–
		106,815	**90,057**	**70,815**
Current liabilities				
Other provisions	(24)	22,799	25,433	31,150
Current financial liabilities	(22)	15,930	28,115	36,939
Trade payables	(25)	23,774	24,292	27,850
Income tax liabilities	(26)	6,600	4,895	1,984
Other liabilities	(27)	9,712	8,419	25,159
		78,816	**91,155**	**123,083**
Liabilities in connection with discontinued operations		**–**	**–**	**–**
		346,636	**373,261**	**347,697**

As the figures are presented in € thousands, the numbers may not add up due to rounding.
[1] Restated due to error correction.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AT 31 DECEMBER 2019

in € thousands	Subscribed capital	Capital reserve	Revenue reserves		
			Currency differences	Cash flow hedges	Available-for-sale financial assets
01/01/2018	**17,224**	**48,811**	**–20,521**	**–**	**–**
Error correction	–	–	–	–	–
31/12/2018	**17,224**	**48,811**	**–20,521**	**–**	**–**
Consolidated annual result	–	–	–	–	–
Other comprehensive income before taxes	–	–	–63	–	–
Deferred taxes on other comprehensive income	–	–	–	–	–
Total comprehensive income	**–**	**–**	**–63**	**–**	**–**
Capital increase	2,953	38,069	–	–	–
Dividends paid to shareholders	–	–	–	–	–
Change in consolidation group	–	–	18	–	–
Other changes	–	–40	–	–	–
31/12/2018 / 01/01/2019	**20,177**	**86,840**	**–20,566**	**–**	**–**
Error correction	–	–	–	–	–
01/01/2019	**20,177**	**86,840**	**–20,566**	**–**	**–**
Consolidated annual result	–	–	–	–	–
Other comprehensive income before taxes	–	–	827	–	–
Deferred taxes on other comprehensive income	–	–	–	–	–
Total comprehensive income	**–**	**–**	**827**	**–**	**–**
Capital increase	–	–	–	–	–
Capital decrease	–	–	–	–	–
Dividends paid to shareholders	–	–	–	–	–
Change in consolidation group	–	–	–	–	–
Withdrawals	–	–	–	–	–
Other changes	–	–	0	–	–
31/12/2019	**20,177**	**86,840**	**–19,739**	**–**	**–**

As the figures are presented in € thousands, the numbers may not add up due to rounding.
See note 19 of the notes to the consolidated financial statements for additional information on equity.

Actuarial gains/losses	Other	Total	Consolidated balance sheet result	Equity attributable to KAP shareholders	Non-controlling interests	Total equity
–4,998	**10,432**	**–15,086**	**98,874**	**149,822**	**5,365**	**155,187**
–	–	–	–1,388	–1,388	–	–1,388
–4,998	**10,432**	**–15,086**	**97,486**	**148,433**	**5,365**	**153,799**
–	–	–	13,854	13,854	–25	13,829
–356	–	–420	–	–420	33	–387
107	–	107	–	107	–	107
–249	**–**	**–313**	**13,854**	**13,541**	**8**	**13,549**
–	–	–	–	41,022	–	41,022
–	–	–	–14,056	–14,056	–	–14,056
–	–	18	–	18	–590	–572
–	23	23	314	297	–2,383	–2,086
–5,247	**10,455**	**–15,358**	**97,598**	**189,256**	**2,400**	**191,656**
–	–	–	394	394	–	394
–5,247	**10,455**	**–15,358**	**97,992**	**189,649**	**2,400**	**192,049**
–	–	–	–14,044	–14,044	–74	–14,119
–2,608	–	–1,781	–	–1,781	–7	–1,787
782	–	782	–	782	–	782
–1,826	**–**	**–998**	**–14,044**	**–15,043**	**–81**	**–15,124**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–15,521	–15,521	–	–15,521
–	–	–	–	–	–	–
–	84	–	–	–	–	–
–	–	–84	–14	–97	–303	–400
–7,073	**10,371**	**–16,442**	**68,413**	**158,989**	**2,017**	**161,005**

CONSOLIDATED STATEMENT OF CASH FLOWS

in € thousands	2019	2018[1]
Earnings before interest and income taxes	**–8,495**	**23,145**
Depreciation and amortisation of non-current assets (offset against write-ups)	46,749	26,824
Change in provisions	–3,391	–8,466
Other non-cash expenses and income	3,676	–1,957
Gains/losses from the disposal of non-current assets and discontinued operations	165	–8,238
Cash flow from operating activities before changes in assets and liabilities	**38,704**	**31,309**
Changes in inventories, receivables and other assets not attributable to investing and financing activities	1,123	3,216
Changes in payables and other liabilities not attributable to investing and financing activities	647	–6,432
Cash flow from operating activities before interest and income taxes	**40,474**	**28,094**
Interest paid and received	–3,771	–3,895
Income taxes paid and received	–1,196	–3,521
Cash flow from operating activities	**35,507**	**20,678**
Proceeds from disposal of property, plant and equipment (including investment property)	1,251	1,673
Investments in property, plant and equipment (including investment properties)	–16,677	–21,230
Investments in intangible assets	–759	–919
Proceeds from the disposal of financial assets	75	205
Investments in financial assets	–2	–
Cash inflow from the disposal of consolidated companies	–	37,311
Cash outflow from the addition of consolidated companies	–	–19,360
Cash inflow from repayments of financial receivables	–	2
Disbursements by granting loans	–20	–18
Cash flows from investing activities	**–16,132**	**–2,336**

in € thousands	2019	2018[1]
Proceeds from capital increase	–	600
Dividends paid to shareholders	–15,521	–14,056
Acquisition of minority interest	–	–372
Cash inflow from borrowing	11,771	70,706
Disbursements for the repayment of financial liabilities	–22,282	–73,511
Cash flow from financing activities	**–26,031**	**–16,632**
Net change in cash and cash equivalents	–6,657	1,710
Effect of exchange rate, consolidation and valuation changes on cash and cash equivalents	7	–63
Cash and cash equivalents at beginning of period	11,727	10,079
Cash and cash equivalents at end of period	**5,077**	**11,727**

As the figures are presented in € thousands, the numbers may not add up due to rounding.
See note 47 of the notes to the consolidated financial statements for information on the consolidated statement of cash flows and note 38 on discontinued operations.
[1] Restated due to error correction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 2019 FINANCIAL YEAR

1. GENERAL REMARKS

KAP AG or the KAP Group has prepared the consolidated financial statements for the period ended 31 December 2019 in accordance with the International Financial Reporting Standards (IFRS) adopted in the EU member states and the additional requirements of section 315e of the German Commercial Code (HGB). The consolidated financial statements of KAP AG take into account and have been prepared in accordance with all of the International Financial Reporting Standards (IFRS) that are mandatory as of 31 December 2019 and the associated interpretations (IFRIC). In addition to the statement of financial position, the statement of income, the statement of comprehensive income/loss, the statement of cash flows and the statement of changes in shareholders' equity are also shown. The notes also contain segment reporting.

To improve the clarity of presentation, various items of the consolidated statement of financial position and of the consolidated statement of income have been combined. These items are broken down and explained accordingly in the notes.

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. The Group companies operate in five different segments. 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 consolidated financial statements include all major domestic and foreign subsidiaries that are under the legal and/or actual control of KAP AG. In addition to the parent company, the consolidated group includes 34 German and 19 foreign companies.

Investments in joint ventures and associates are accounted for using the equity method.

Interests in subsidiaries and investments in joint ventures and associates whose influence on the financial position, cash flows and financial performance is of minor importance are not included in the consolidated financial statements.

Five subsidiaries and one investment were not included. The key figures for the companies not included in the consolidated financial statements are each less than 1% of the consolidated revenue, consolidated equity and consolidated total assets.

Overall, the consolidated group changed as follows in the year under review:

	31/12/2018	Additions	Disposals	31/12/2019
Germany	35	–	4	31
Rest of the world	19	–	–	19
Total	**54**	**–**	**–**	**50**

The disposals relate to the merger of Schäfflerbachstraße Grundbesitz GmbH, Fulda, Germany, into Mehler Grundstücksverwaltungs GmbH, Fulda, Germany, with effect as of 1 January 2019. The merger of Heiche US Surface Technologies LP, Spartanburg, USA, into Heiche US Inc., Atlanta, USA (formerly: KAP US Surface Inc., Atlanta, USA) took place with effect as of 31 December 2019. With effect as of 31 December 2019, G. u. R. Heiche GmbH & Co. KG, Schwaigern, Germany, and Heiche Bayern GmbH & Co. KG, Hunderdorf, Germany, were absorbed by Heiche Bayern GmbH, Hunderdorf, Germany (formerly: Heiche Bayern Verwaltungs GmbH, Hunderdorf, Germany).

The following adjustments were necessary for the assets and liabilities of the Heiche Group recognised in a preliminary purchase price allocation:

in € thousands	Preliminary purchase price allocation	Adjustment	Final purchase price allocation [1]
Non-current assets			
Intangible assets	20,778	–	20,778
Property, plant and equipment	40,806	–	40,806
Deferred tax assets	132	–	132
	61,716	**–**	**61,716**
Current assets			
Inventories	637	–	637
Trade receivables	6,336	–	6,336
Other receivables and assets	2,122	–	2,122
Cash and cash equivalents	2,703	–	2,703
	11,798	**–**	**11,798**
Assets/financial assets	**73,514**	**–**	**73,514**
Non-current liabilities			
Deferred tax liabilities	8,388	–	8,388
Financial liabilities	500	–	500
Pension obligations	50	–	50
	8,938	**–**	**8,938**
Current liabilities			
Other provisions	3,384	–	3,384
Current financial liabilities	11,419	–	11,419
Trade payables	2,520	–	2,520
Actual income taxes	–	–	–
Other liabilities	2,861	–	2,861
	20,198	**–**	**20,198**
Liabilities	**29,136**	**–**	**29,136**
Net assets	**44,378**	**–**	**44,378**
Goodwill	686	–	686
	45,064	**–**	**45,064**

[1] Before error correction, see note 6 on changes to the consolidated financial statements.

Non-tax-deductible goodwill of €686 thousand arose from the final purchase price allocation of assets and liabilities. The goodwill was allocated to the **surface technologies** segment. It represents non-separable assets such as employees' know-how, positive earnings expectations for the future and synergies from development, sales and marketing.

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 resulting from the change in the consolidated group are, where required and if they are material, explained in the note to the relevant item in the consolidated statement of financial position and the consolidated statement of income.

The following companies made use of section 264 (3) of the German Commercial Code (HGB) on the basis of existing profit and loss transfer agreements with KAP AG:

Name	Registered office
MEHLER Aktiengesellschaft	Fulda, Germany
KAP Precision Components GmbH (formerly GM Tec Industries Holding GmbH)	Fulda, Germany
KAP Surface Holding GmbH	Fulda, Germany

The other companies that also made use of section 264 (3) HGB and section 264b HGB are shown in the list of investments of KAP AG in accordance with section 313 (2) HGB that is presented in note 51.

KAP AG's documents that require disclosure are submitted to the Federal Gazette and subsequently published.

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. The annual financial statements of the companies included are prepared for the period ending on KAP AG's reporting date and are based on uniform accounting and valuation methods.

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 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 annual 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 resulting from changes in exchange rates arising on the reporting date 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.

Generally, 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. When applying the accounting rules at times of hyperinflation, the expenses and income are translated at the reporting date 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 the 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:

	Annual average exchange rate		Average exchange rate on reporting date	
	2019	2018 €1 =	31/12/2019	31/12/2018 €1 =
Belarusian rouble	2.3397	2.4063	2.3686	2.4806
Chinese yuan	7.7197	7.8045	7.8328	7.8600
Indian rupee	78.7864	80.7158	80.1500	79.9088
Polish zloty	4.2980	4.2616	4.2597	4.2981
Swedish krona	10.5935	10.2572	10.4445	10.2513
Swiss franc	1.1125	1.1550	1.0856	1.1266
South African rand	16.1782	15.6211	15.7645	16.4699
Czech koruna	25.6702	25.6458	25.4070	25.7240
Turkish lira	6.3614	5.7064	6.6803	6.0557
Hungarian forint	325.3602	318.8641	330.6100	321.0600
US dollar	1.1194	1.1811	1.1228	1.1453

5. ACCOUNTING AND VALUATION PRINCIPLES

The financial statements of the companies included in the consolidated financial statements have been 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 applies 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 the 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
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 the manner intended. In addition to direct costs, the production costs also include an appropriate share of production-related overheads.

In subsequent periods, property, plant and equipment is 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
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lessee
The Group recognises and measures all leases (except for short-term leases and leases for which the underlying asset is of low value) in accordance with a single model.

The leases are capitalised within property, plant and equipment as a right-of-use asset and future lease payments are recognised as a liability.

(1) Right-of-use assets

Right-of-use assets are recognised as of the commencement date of the lease, i.e. as of the date on which the underlying leased asset is available for use. Right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liabilities. The costs of the right-of-use assets comprise the lease liabilities recognised, the initial direct costs incurred and the lease payments made at or before the commencement date, less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the expected useful life of the leased asset as follows:

Buildings	2 to 18 years
Technical equipment and machinery	1 to 5 years
Other equipment, plant and office equipment	1 to 5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or if the exercise of a purchase option is reflected in the costs, the depreciation will be calculated on the basis of the expected useful life of the leased asset. Various real estate and equipment leases of the Group include extension and termination options. Contractual conditions of this type are used to preserve operating flexibility in relation to the assets used by the Group.

The right-of-use assets are also tested for impairment.

(2) Lease liabilities

On the commencement date, the Group recognises the lease liabilities at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or rate and amounts expected to be payable under residual value guarantees.

The lease payments further include the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and payment of penalties for terminating the lease if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers this payment occurs.

When calculating the present value of the lease payments, the Group uses its incremental borrowing rate at the commencement date because the interest rate implicit in the lease cannot be readily determined. The weighted average incremental borrowing rate was around 2.0%. Following the commencement date, the amount of the lease liability is increased to reflect higher interest expense and reduced to reflect the lease payments made. In addition, the carrying amount of the lease liability is revalued in the event of a change to the lease, a change to the lease payments (e.g. a change in future lease payments as a result of a change in an index or a rate used to determine those payments) or in the event of a change in the assessment of an option to purchase the underlying asset.

The lease liabilities are included in financial liabilities.

(3) Short-term leases and leases of low-value assets

The Group applies the exemption for short-term leases (i.e. leases whose term from the commencement date is a maximum of twelve months and which do not include a purchase option) to its short-term leases. It also applies the exemption for leases of low-value assets to leases classified as low value. Lease payments for short-term leases and for leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

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. As a rule, grants are allocated as income on a systematic basis over the period in which the corresponding expenses are to be compensated.

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

Investment property/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 charged in the same way as for comparable items of property, plant and equipment (factory and office equipment).

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 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.

Any impairment loss for a cash-generating unit is determined based on the value in use. The present value of the future net cash flows is used as a basis because reference cannot be made to an active market. The forecast of net cash inflows is based on a single-value budget plan approved by the management of the KAP Group for the next three years. The plan is based on the general development of the respective markets and the profitability of the business. The value in use is determined using the risk premium method, which takes the expected risk into account by means of a premium to the capitalisation interest rate.

The cost of capital is calculated as the weighted average cost of equity and borrowing (weighted average cost of capital – WACC). This is calculated on the basis of the capital asset pricing model (CAPM) on the basis of current market expectations. Specific peer group information for beta factors, capital structure data and borrowing costs is used to determine the risk-adjusted interest rate for the purpose of impairment testing. Periods not included in the planning calculations are represented by the recognition of a terminal value. A sensitivity analysis is carried out with regard to the cost-of-capital rates.

The cost-of-capital rates were 5.06% for **engineered products** (previous year: 5.51%), 5.13% for **flexible films** (previous year: 5.23%), 6.31% for **it/services** (previous year: 6.52%), 5.03% for **precision components** (previous year: 5.77%) and 6.69% for **surface technologies** (previous year: 7.33%). The typical tax rate used was 30%. With a growth rate of 0% (previous year: 0%), this results in a pre-tax interest rate of 6.78% for **engineered products** (previous year: 7.37%), 6.88% for **flexible films** (previous year: 7.00%), 8.40% for **it/services** (previous year: 8.66%), 6.75% for **precision components** (previous year: 7.70%) and 8.88% for **surface technologies** (previous year: 9.70%). An increase in the cost-of-capital rate by 1.0% (previous year: 1.0%) for the respective segment does not result in any impairment of goodwill.

Details of the KAP Group's impairment methods for financial assets and liabilities to be accounted for in accordance with IFRS 9 and the calculation of loss allowances are presented in note 45 on credit and default risk.

Financial assets accounted for using the equity method
In the case of investments in associates and joint ventures accounted for using the equity method, the initial recognition is made at cost plus any resulting negative goodwill. In the subsequent periods, the carrying amount of the shares changes in line with the pro rata profit or loss for the period. Distributions received are deducted from the carrying amount. If necessary, impairment is carried out to the lower fair value.

Other financial assets
Shares in non-consolidated companies, shareholdings not accounted for using the equity method and investment securities are classified as 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 (2017: loans and receivables). 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 and 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 actual tax assets against actual 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 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, 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 loss allowance 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
Income tax liabilities 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 an income tax receivable.

Non-current assets held for sale and discontinued operations
Non-current assets and/or disposal groups, as well as liabilities attributed to non-current assets and disposal groups, are classified as held for sale if the relevant carrying amounts are realised principally 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 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 using the 2015 Heubeck mortality tables for the previous year and October 2018. 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 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 obligation.

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 the expected amount of which 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
The stock option programme that KAP AG introduced in the 2017 financial year is a virtual stock option programme with cash settlement. A provision proportionate to the amount of the fair value of the payment obligation is recognised on the respective reference date and any changes in the fair value are recognised through profit and loss.

The fair value of the virtual stock options is determined using the Black-Scholes-Merton model, where the following parameters – each of which was derived on the basis of the remaining term of the virtual stock options – are used in the calculation:

%	31/12/2019	31/12/2018
Risk-free interest rate	–0.65% or –0.61%	-0.61% or 0.53%
Expected volatility	30.2% or 34.0%	27.7% or 28.3%

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

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 order acquisition costs. Since the term of contracts for which the contract acquisition costs are incurred and the corresponding payback period for contract acquisition 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. Typically, no variable payments are agreed. 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 because this allows the transfer of control over the asset to the customer to be reflected more appropriately in the consolidated financial statements. 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 annual result of KAP AG shareholders) by the average number of ordinary shares outstanding in the reporting period. Dilutive effects on earnings per share may also arise from the existing stock option programme.

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, financial instruments, 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 determining lease terms, 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. The carrying amounts of the material items with estimation uncertainties mentioned above can be found in the individual descriptions of the associated items in the notes to the consolidated financial statements.

6. CHANGES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Furthermore, it was determined that the purchase price allocation from the acquisition of the Heiche Group in the **surface technologies** segment was not correctly represented. This leads to an error correction under IAS 8. As a result, the consolidated financial statements must be adjusted retroactively as of 31 December 2018.

The supplementary balance sheet of one acquired company was not yet available at the date of acquisition and was not taken into account within the measurement period under IFRS 3. Consequently, the goodwill and deferred tax liabilities were overstated.

The error was corrected as of 31 December 2019. The comparative figures for the previous year for the consolidated interim financial statements – comprising the consolidated statement of income, the consolidated statement of comprehensive income/loss, the consolidated statement of changes in equity, the consolidated statement of cash flows and notes to the consolidated financial statements – and for the KAP AG Group interim management report have been adjusted.

The error correction had the following effects:

Consolidated Statement of Income

	01/01–31/12/2018			01/01-30/06/2018		
in € thousands	As published and audited	Adjustment	After error correction	As published and audited	Adjustment	After error correction
Changes in inventories	4,459	–783	3,676	1,449	–475	974
Other operating income	14,059	445	14,504	–	–	–
Cost of materials	–219,422	–249	–219,671	–115,119	–108	–115,227
Personnel expenses	–92,649	–279	–92,928	–	–	–
Income taxes	–5,029	343	–4,686	–2,799	175	–2,624
Consolidated result after taxes attributable to KAP shareholders	14,771	–523	14,247	8,603	–408	8,195

Consolidated Statement of Financial Position

	31/12/2018			30/06/2018			01/01/2018		
in € thousands	As published and audited	Adjustment	After error correction	As published and audited	Adjustment	After error correction	As published and audited	Adjustment	After error correction
Intangible assets	42,327	–686	41,641	–	–	–	–	–	–
Deferred tax assets	4,813	989	5,802	5,589	771	6,360	6,097	595	6,692
Inventories	70,062	–3,015	67,047	73,074	–2,566	70,508	74,041	–1,983	72,058
Total assets	375,973	–2,712	373,261	371,951	–1,796	370,155	349,085	–1,388	347,697
Net result	99,903	–1,911	97,992	107,612	–1,796	105,816	98,874	–1,388	97,486
Deferred tax liabilities	13,309	–1,080	12,229	–	–	–	–	–	–
Other provisions	25,154	279	25,433	–	–	–	–	–	–

7. NEW ACCOUNTING STANDARDS

a) Standards/interpretations to be used for the first time in the 2019 financial year:

Standard/interpretation		Mandatory from [1]	Adopted by the European Commission [2]	Foreseeable effects
Amendments to IFRS 9	Amendments to IFRS 9 Financial Instruments; financial assets with negative compensation may, under certain circumstances, be recognised at amortised cost or at fair value through other comprehensive income instead of at fair value through profit and loss	01/01/2019	Yes	None
IFRS 16	Leases	01/01/2019	Yes	See note below
IFRIC 23	Uncertainty over Income Tax Treatments	01/01/2019	Yes	None
Amendments to IAS 19	Employee Benefits; after an amendment, curtailment or settlement of a defined benefit plan, the updated assumptions from the re-measurement of the net liability (asset) from the defined benefit pension plans must be used as a basis for the remainder of the reporting period	01/01/2019	Yes	None
Amendments to IAS 28	Amendments to IAS 28 Investments in Associates and Joint ventures; clarification that the impairment requirements of IFRS 9 apply to long-term interests in associates and joint ventures	01/01/2019	Yes	None
	Improvements to IFRS 2015–2017 (annual improvements) [3]	01/01/2019	Yes	None

[1] For financial years beginning on or after that date. At the time of adoption, reference was made to the date indicated by the EU.
[2] Until 31 December 2019.
[3] Amendments to IAS 12, IAS 23, IFRS 3 and IFRS 11.

The reconciliation of the future minimum lease payments under operating leases recognised in accordance with IAS 17 as of 31 December 2018 to the leases recognised in accordance with IFRS 16 as of 1 January 2019 is presented below:

Reconciliation	
Future minimum lease payments under operating leases as of 31 December 2018	24,393
Leases concluded in the 2018 financial year with inception of the lease in the 2019 financial year	–23
Short-term leases	–63
Leases of low-value assets that are recognised as expenses on a straight-line basis	–86
Adjustments for cost components that are not recognisable under IFRS 16	–4,092
Additional gross lease liabilities	20,129
Discounting	–4,227
Additional net lease liabilities	**15,902**
Lease liabilities under finance leases as of 31 December 2018	481
Lease liabilities as of 1 January 2019	**16,383**

b) Standards/interpretations to be used for the first time in future financial years:

Standard/interpretation		Mandatory from [1]	Adopted by the European Commission [2]	Foreseeable effects
Amendments to IAS 1 and IAS 8	Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; creation of a uniform and more precise definition of the materiality of information provided in financial statements and supplementation with accompanying examples	01/01/2020	Yes	None

[1] For financial years beginning on or after that date. At the time of adoption, reference was made to the date indicated by the EU.
[2] Until 31 December 2019.

c) Standards/interpretations not yet adopted by the European Commission:

Standard/interpretation		Foreseeable effects
Supplements to IFRS 9	Financial Instruments: new rules on hedge accounting in the form of a new general model for hedge accounting	None
IFRS 17	Insurance Contracts	None
Amendments to IFRS 3	Business Combinations; clarifications of the definition and identification of a business operation	None
Amendments to IAS 28 and IFRS 10	Amendments to IAS 28 Investments in Associates and Joint Ventures and IFRS 10 Consolidated Financial Statements; recognition of total gains/losses when assets disposed of/contributed represent a business operation within the meaning of IFRS 3	None
Amendments to IFRS 9, IAS 39 and IFRS 7	Amendments to IFRS 9 Financial Instruments; IAS 39 and IFRS 7; relief regarding hedge accounting, mandatory for all hedging relationships	None
	Revised conceptual framework; amendment of content and amendment of/additions to sections	None

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FIXED ASSETS

The list of shareholdings is shown under note 51 of the notes to the consolidated financial statements.

The composition and development of the fixed assets is shown separately in the consolidated statement of changes in fixed assets in note 12.

8. INTANGIBLE ASSETS

The carrying amount at the end of the year relates to software and licences, goodwill, advance payments made on intangible assets and the assets for brands, technologies and customer relationships resulting from the purchase price allocations.

The intangible assets with indefinite useful lives are essentially brand names that have been established in the market for many years and the end of whose useful lives is not foreseeable. In the 2018 financial year, the Heiche brand was acquired as part of the acquisition of the Heiche Group.

Of the customer relationships in the amount of €19,972 thousand as of 31 December 2019 (previous year: €23,678 thousand), €1,993 thousand (previous year: €2,396 thousand) relates to the **flexible films** segment, €550 thousand (previous year: €750 thousand) to the **it/services** segment and €17,429 thousand (previous year: €20,455 thousand) to the **surface technologies** segment. The useful lives are three to nine years.

Customer relationships amounting to €16,294 thousand were identified and measured in the context of the purchase price allocations carried out in the previous year. These are recognised at their fair value at the acquisition date and subsequently amortised on a straight-line basis over their estimated useful lives based on the projected cash flows from the contracts. The amortisation periods are between three and nine years.

Of the goodwill recognised as of 31 December 2019 amounting to €11,845 thousand (previous year: €12,534 thousand), €3,479 thousand (previous year: €3,479 thousand) is attributable to the cash-generating unit NOW Contec, €1,976 thousand (previous year: €1,976 thousand) to the cash-generating unit **it/services**, €3,850 thousand (previous year: €6,409 thousand) to the cash-generating unit GtO/MVD and €0 thousand (previous year: €686 thousand) to the cash-generating unit Heiche.

Based on the impairment test, impairment of €2,559 thousand (previous year: €0 thousand) was necessary on the goodwill of the cash-generating unit GtO/MVD from the **surface technologies** segment.

9. PROPERTY, PLANT AND EQUIPMENT

Based on the impairment test, impairment of the property, plant and equipment of the MEP Group amounting to €9,493 thousand (previous year: €0 thousand) was necessary.

Leases

The KAP Group has concluded leases for various office and production areas and equipment and vehicles. The lease terms are generally between 1 and 18 years. Leases of assets with lease terms of twelve months or less and leases of assets of low value have also been concluded. The Group applies the practical expedients that apply to short-term leases and leases of low-value assets to these leases.

There is a difference between the expected value for the initial recognition of the right-of-use asset under IFRS 16 communicated in the consolidated financial statements for the period ended 31 December 2018 and the value finally determined. This difference is largely due to a revaluation of remuneration components that are included in the calculation of the lease payments. Remuneration components that are not yet to be taken into account were taken into account for the preliminary estimation in the consolidated financial statements for the period ended 31 December 2018.

The following items are recognised in the statement of financial position in connection with leases:

Right-of-use assets	2019	2018[1]
Land and buildings	14,013	–
Technical equipment and machinery	150	138
Other equipment, plant and office equipment	1,083	–
Total	**15,246**	**138**

Lease liabilities	2019	2018[1]
Current	1,780	467
Non-current	13,566	15
Total	**15,346**	**482**

[1] In the previous year, only lease assets and lease liabilities that were classifiable as finance leases under IAS 17 were recognised.

Additions to the right-of-use assets during the 2019 financial year amounted to €17,119 thousand.

Depreciation of right-of-use assets	2019	2018
Land and buildings	15,467	–
Technical equipment and machinery	168	–
Other equipment, plant and office equipment	1,484	–
Total	**17,119**	**–**

Expenses for leases	2019	2018
Interest expenses (recognised in finance costs)	437	16
Expenses in connection with short-term leases (recognised in other operating expenses)	357	–
Expense for leases of low-value assets that are not included in the current leases mentioned above (recognised in other operating expenses)	101	–
Total	**895**	**16**

Total payments for leases amounted to €2,607 thousand.

Government grants of €4,578 thousand (previous year: €196 thousand) were recognised in the 2019 financial year. Government grants were largely awarded for the acquisition of certain buildings and machinery at the Heinsdorfergrund and Döbeln sites. The conditions of these grants were met in full.

10. INVESTMENT PROPERTIES

The disclosure concerns commercial land and buildings of MEHLER Aktiengesellschaft in Fulda, Flieden, Germany and commercial land of GbR MEHLER AG/Daun & Cie. AG in Stadtallendorf, Germany.

The KAP Group determines the fair value of the investment properties using the German income approach taking account of the German Regulation on the Principles for Determining the Market Value of Property (ImmoWertV) (fair value hierarchy level 2). The expected future revenues and expenditures of a property are discounted over a period of an average of ten years to the valuation date as the present value. Contractual terms of current tenancies form the basis of the expected rental income; rental increase rates were not taken into account. On the cost side, maintenance expenditures, risks of loss of rental income and cost increases of 2% per year, derived from the medium-term expected increase in the consumer price index, are estimated.

The following assumptions were made to determine the key valuation parameters such as the standard land value, property yield and remaining useful life: The standard land values determined by appraisal committees served as the basis. The property yield is determined on a property-type-specific basis, depending on the location, the property type, the condition of the property, the age, the potential rental growth and the location forecast. The fixed periods for which the lease has been concluded are taken into account as the useful lives. Third-party experts were not appointed for valuation purposes.

The following overview shows the main assumptions used in determining the fair value of the investment properties as part of the valuation using the German income approach:

	2019		2018	
Valuation parameters	**Range for commercial properties**		**Range for commercial properties**	
Market rent (€ per m² p.a.)	6.94	32.76	18.60	31.88
Property yield (%)	6.70	8.00	6.70	8.00
Remaining useful life (years)	1.00	16.00	1.00	17.00
Multiplier	0.93	9.64	0.93	9.97

The property yield was identified as the most important value driver influenced by the market. After taking account of a customary range of 6.50% to 8.50%, the following income figures were determined:

	2019 Range		2018 Range	
	6.50%	8.50%	6.50%	8.50%
Income value (in € thousands)	19,787	18,013	15,654	14,741

11. FINANCIAL ASSETS ACCOUNTED FOR USING THE EQUITY METHOD

The disclosure concerns Safe-Box Self Storage Mönchengladbach GmbH, Mönchengladbach, Germany. Due to the shareholding of 33.33%, the company was included in the consolidated financial statements using the equity method.

12. OTHER FINANCIAL ASSETS

In addition to shares in affiliated companies amounting to €28 thousand (previous year: €28 thousand) and investments in companies accounted for at cost amounting to €50 thousand (previous year: €50 thousand), this item mainly includes loans to participations of €1,029 thousand (previous year: €1,084 thousand). The loans are based on long-term loan agreements.

Details on the development of the fair value of companies in which participations are held can be found in note 45 on financial instruments.

DEVELOPMENT OF GROUP FIXED ASSETS

FROM 1 JANUARY TO 31 DECEMBER 2019

	Acquisition/manufacturing costs								
in € thousands	01/01/2019	Adjustment due to corrections[1]	Currency adjustment	IAS 29 hyper-inflation adjustment	Change in consolidated group	Additions	Transfers	Disposals	31/12/2019
Intangible assets									
Software and licences	7,643	–	–6	–	–	719	171	–854	7,674
Development costs	206	–	–4	–	–	–	–	–	202
Brand and brand name	3,433	–	–2	–	–	–	–	–	3,431
Technology	1,054	–	–11	–	–	–	–	–	1,044
Customer relationships	26,604	–	–273	–	–	–	–	–	26,331
Other internally generated intangible assets	37	–	–	–	–	40	–	–	77
Goodwill	16,548	–686	–2	–	–	–	–	–	15,859
Advance payments made on intangible assets	12	–	1	–	–	–	29	–	41
	55,537	**–686**	**–297**	**–**	**–**	**759**	**200**	**–854**	**54,659**
Property, plant and equipment									
Land and buildings	115,891	–	248	–	–	16,417	2,849	–221	135,184
Technical equipment and machinery	287,019	–	590	–	–	3,630	5,602	–10,271	286,568
Other equipment, plant and office equipment	51,696	–	–3	–	–	5,672	848	–4,565	53,649
Advance payments and assets under construction	7,243	–	24	–	–	8,077	–9,499	–450	5,398
	461,850	**–**	**859**	**–**	**–**	**33,795**	**–200**	**–15,507**	**480,799**
Investment property/properties	**19,333**	**–**	**–**	**–**	**–**	**1**	**–**	**–1**	**19,334**
Financial assets accounted for using the equity method	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other financial assets			–						
Shares in affiliated companies	99	–	–	–	–	–	–	0	99
Investments in companies accounted for at cost	200	–	–	–	–	–	–	–	200
Loans to affiliated companies	–	–	–	–	–	–	–	–	–
Loans to participations	1,304	–	–	–	–	–	–	–55	1,249
Other loans	213	–	–6	–	–	2	–	–20	189
Investment securities	–	–	–	–	–	–	–	–	–
	1,816	**–**	**–6**	**–**	**–**	**2**	**–**	**–75**	**1,737**
	538,536	**–686**	**557**	**–**	**–**	**34,558**	**0**	**–16,437**	**556,529**

[1] Restated due to error correction.

Accumulated depreciation and amortisation										Carrying amounts	
01/01/2019	Adjustment due to corrections	Currency adjustment	IAS 29 hyper-inflation adjustment	Change in consolidated group	Additions	Write-up	Transfers	Disposals	31/12/2019	31/12/2019	01/01/2019
5,916	–	–7	–	–	798	–	–	–854	5,853	1,820	1,726
206	–	–4	–	–	–	–	–	–	202	0	0
89	–	–1	–	–	24	–	–	–	111	3,320	3,345
59	0	–1	–	–	84	–	–	–	143	901	995
2,926	–	–31	–	–	3,465	–	–	–	6,359	19,972	23,678
–	–	–	–	–	–	–	–	–	–	77	37
4,014	–	–	–	–	2,559	–	–	–	6,573	9,286	12,534
–	–	–	–	–	–	–	–	–	–	41	12
13,210	**0**	**–44**	**–**	**–**	**6,930**	**–**	**–**	**–854**	**19,241**	**35,417**	**42,327**
55,966	–	114	–	–	9,019	–	–	–110	64,990	70,194	59,925
201,493	–	517	–	–	24,763	–	0	–9,984	216,790	69,778	85,526
35,348	–	16	–	–	5,637	–	0	–3,944	37,056	16,593	16,349
17	–	6	–	–	90	–	–	–55	58	5,340	7,226
292,824	**–**	**653**	**–**	**–**	**39,509**	**–**	**–**	**–14,092**	**318,894**	**161,904**	**169,026**
14,655	**–**	**–**	**–**	**–**	**310**	**–**	**–**	**–**	**14,966**	**4,368**	**4,678**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
											–
72	–	–	–	–	–	–	–	0	71	28	28
150	–	–	–	–	–	–	–	–	150	50	50
–	–	–	–	–	–	–	–	–	–	–	–
220	–	–	–	–	–	–	–	–	220	1,029	1,084
–	–	–	–	–	–	–	–	–	–	189	213
–	–	–	–	–	–	–	–	–	–	–	–
442	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0**	**441**	**1,296**	**1,374**
321,131	**0**	**610**	**–**	**–**	**46,749**	**–**	**–**	**–14,946**	**353,543**	**202,986**	**217,405**

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

DEVELOPMENT OF GROUP FIXED ASSETS

FROM 1 JANUARY TO 31 DECEMBER 2018

	Acquisition/manufacturing costs								
in € thousands	01/01/2018	Currency adjustment	Adjustment IAS 29 hyper-inflation	Change in consolidated group	Additions	Transfers	Disposals	Reclassifi-cations [1]	31/12/2018
Intangible assets									
Software and licences	10,568	–27	–	–3,999	846	45	210	–	7,643
Development costs	215	–9	–	–	–	–	–	–	206
Brand and brand name	113	–5	–	3,315	9	–	–	–	3,433
Technology	28	–1	–	1,027	–	–	–	–	1,054
Customer relationships [2]	10,325	–15	–	16,294	–	–	–	–	26,604
Other internally generated intangible assets	–	–	–	–	37	–	–	–	37
Goodwill [2]	16,509	–156	–	686	–	0	–492	–	16,548
Advance payments made on intangible assets	30	–1	–	–	27	–45	–	–	12
	37,790	**–213**	**–**	**17,323**	**919**	**0**	**–282**	**–**	**55,537**
Property, plant and equipment									
Land and buildings	120,119	–280	–	–11,672	4,028	3,895	–199	–	115,891
Technical equipment and machinery	284,542	–21	–	732	5,120	8,746	–12,101	–	287,019
Other equipment, plant and office equipment	49,570	–90	–	2,469	3,636	561	–4,449	–	51,696
Advance payments and assets under construction	8,109	–30	–	4,030	8,371	–13,236	–2	–	7,243
	462,340	**–420**	**–**	**–4,440**	**21,155**	**–34**	**–16,751**	**–**	**461,850**
Investment property/properties	**19,224**	**–**	**–**	**–**	**75**	**34**	**–**	**–**	**19,333**
Financial assets accounted for using the equity method	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other financial assets									
Shares in affiliated companies	99	–	–	–	–	–	–	–	99
Investments in companies accounted for at cost	200	–	–	–	–	–	–	–	200
Loans to affiliated companies	–	–	–	–	–	–	–	–	–
Loans to participations	1,402	–	–	–	–	–	–98	–	1,304
Other loans	–	–1	–	321	–	–	–107	–	213
Investment securities	–	–	–	–	–	–	–	–	–
	1,701	**–1**	**–**	**321**	**–**	**–**	**–205**	**–**	**1,816**
	521,056	**–635**	**–**	**13,204**	**22,150**	**0**	**–17,238**		**538,536**

[1] Reclassification to non-current assets held for sale.
[2] Adjusted due to final purchase price allocation.

Accumulated depreciation and amortisation										Carrying amounts	
01/01/2018	Currency adjustment	Adjustment IAS 29 hyper-inflation	Change in consolidated group	Additions	Transfers	Disposals	Reclassifi-cations [1]	Disposals	31/12/2018	31/12/2018	01/01/2018
9,220	–20	–	–4,125	631	–	–	210	–	5,916	1,726	1,348
215	–9	–	–	–	–	–	–	–	206	–	–
68	–3	–	0	23	–	–	–	–	89	3,345	45
17	–1	–	–	43	–	–	–	–	59	995	11
359	–9	–	52	2,524	–	–	–	–	2,926	23,678	8,710
–	–	–	–	–	–	–	–	–	–	37	–
4,506	–	–	–	–	–	–	–492	–	4,014	12,534	12,870
–	–	–	–	–	–	–	–	–	–	12	30
14,385	**–42**	**–**	**–4,072**	**3,221**	**–**	**–**	**–282**	**–**	**13,210**	**42,327**	**23,015**
61,521	–13	–	–8,582	3,140	–	–	–99	–	55,966	59,925	58,598
211,101	338	–	–13,730	15,894	–	–	–12,111	–	201,493	85,526	73,441
36,929	–55	–	–1,917	4,240	–	–	–3,849	–	35,348	16,349	12,641
–	0	–	–	17	–	–	–	–	17	7,226	8,109
309,551	**270**	**–**	**–24,229**	**23,292**	**–**	**–**	**–16,059**	**–**	**292,824**	**169,026**	**152,789**
14,343	**–**	**–**	**–**	**312**	**–**	**–**	**–**	**–**	**14,655**	**4,678**	**4,881**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0**
72	–	–	–	–	–	–	–	–	72	28	28
150	–	–	–	–	–	–	–	–	150	50	50
–	–	–	–	–	–	–	–	–	–	–	–
220	–	–	–	–	–	–	–	–	220	1,084	1,182
–	–	–	–	–	–	–	–	–	–	213	–
–	–	–	–	–	–	–	–	–	–	–	–
442	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**442**	**1,374**	**1,260**
338,721	**228**	**–**	**–28,301**	**26,824**	**–**	**–**	**–16,341**	**–**	**321,131**	**217,405**	**181,945**

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

13. DEFERRED TAX ASSETS

Deferred taxes are allocable to the following items:

	31/12/2019		31/12/2018	
in € thousands	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	502	3,491	198	6,947
Property, plant and equipment	3,834	9,407	970	7,371
Investment property/properties	–	–	–	–
Financial assets	483	0	–	969
Inventories	1,672	70	359	39
Receivables and assets	1,078	751	2,158	624
Pension provisions	3,140	–	2,501	–
Other provisions	910	300	557	45
Liabilities	4,617	941	859	1,219
Other	162	1,058	221	387
Gross value of deferred taxes on temporary valuation differences	**16,400**	**16,018**	**7,823**	**17,601**
Loss allowances for temporary valuation differences	–4,639	–	–99	–
Tax loss carry-forwards	7,061	–	7,558	–
Loss allowances for tax loss carry-forwards	–5,967	–	–6,177	–
Offsetting	–7,467	–7,467	–4,292	–4,292
	5,388	**8,550**	**4,813**	**13,309**

Deferred taxes are recognised outside profit or loss if the taxes relate to items that are recognised, in the same or a different period, outside profit or loss. This largely applies to actuarial gains and losses from the valuation of pension obligations that are recognised in other comprehensive income.

Loss allowances were recognised for deferred tax assets if there were uncertainties as to their usability. Positive earnings forecasts for subsequent periods are decisive for the usability of deferred tax assets on temporary valuation differences. For the use of tax loss carry-forwards, the duration of the ability to carry these forward must also be taken into account.

As yet unused corporate income tax and comparable foreign loss carry-forwards are as follows:

in € thousands	31/12/2019	31/12/2018
Can be carried forward for up to 5 years	15,013	15,706
Can be carried forward for up to 10 years	268	785
Can be carried forward for more than 10 years	1,571	57
Can be carried forward indefinitely	5,679	9,028
	22,530	**25,576**

The unused commercial tax loss carry-forwards in the amount of €4,589 thousand (previous year: €3,345 thousand) can be carried forward indefinitely.

No deferred tax assets were recognised for positive temporary valuation differences of €17,796 thousand (previous year: €5,348 thousand).

Deferred taxes of €985 thousand (previous year: €1,670 thousand) were capitalised without being offset by positive effects on earnings from the reversal of deferred tax liabilities of the same amount. The companies expect positive taxable income in the future following tax losses in the 2019 financial year or in the previous year.

14. INVENTORIES

in € thousands	31/12/2019	31/12/2018
Raw materials and supplies	**22,806**	**22,018**
Write-down	−2,857	−1,097
Carrying amount	19,949	20,921
Work in progress	**18,857**	**17,671**
Write-down	−1,272	−392
Carrying amount	17,586	17,279
Finished goods	**23,449**	**27,114**
Write-down	−2,683	−1,439
Carrying amount	20,766	25,674
Merchandise	**1,363**	**2,128**
Write-down	−601	−153
Carrying amount	762	1,975
Advance payments made on inventories	**840**	**1,199**
	59,902	**67,047**

Of the total amount, inventories with a carrying amount of €22,888 thousand (previous year: €7,485 thousand) were recognised at net realisable value. The write-downs to net realisable value in the 2019 financial year amounted to €6,321 thousand (previous year: €1,099 thousand).

15. TRADE RECEIVABLES

in € thousands	31/12/2019	31/12/2018
Receivables from		
– third parties	58,939	62,831
– affiliated companies	11	104
– investees	–	–
	58,950	**62,935**

Trade receivables are amounts owed by customers for goods sold or services provided in the ordinary course of business. All trade receivables are due within one year and are therefore classified as current. Trade receivables are initially recognised at the amount of the unconditional consideration. The Group holds trade receivables with the objective of collecting the contractual cash flows and subsequently measures them at amortised cost using the effective interest method.

Loss allowances of €2,639 thousand (previous year: €2,392 thousand) were recognised on receivables from third parties.

Details of the KAP Group's impairment policies for trade receivables and the calculation of the loss allowance are presented in note 45 on credit and default risk.

16. INCOME TAX RECEIVABLES

The disclosure as of the reporting date relates to refund claims from excess payments made in advance.

17. OTHER RECEIVABLES AND ASSETS

The KAP Group classifies its other receivables and assets as financial assets at amortised cost if the financial asset is held in a business model whose objective is to collect contractual cash flows and these cash flows represent only payments of principal and interest on the outstanding principal amount.

in € thousands	31/12/2019	31/12/2018
Financial receivables from		
– third parties	33	18
– affiliated companies	0	0
– investees	65	61
Other assets	11,965	6,322
	12,063	**6,400**

The other assets largely concern tax refund claims and deferred income from advance payments made for contracts with a term beyond the reporting date. Apart from the deferred income of €1,307 thousand (previous year: €856 thousand), the other assets are of a financial nature.

All other financial assets measured at amortised cost are due within one year and are therefore current assets. Due to the short-term nature of financial assets measured at amortised cost, their carrying amount corresponds to their fair value.

Loss allowances of €901 thousand (previous year: €194 thousand) were recognised on financial receivables from third parties.

Details of the KAP Group's impairment policies for other financial assets measured at amortised cost and the calculation of the loss allowance are provided in note 45 on credit and default risk.

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cheques, cash and bank balances in various currencies with a maturity of three months or less.

Cash and cash equivalents of €16 thousand (previous year: €12 thousand) are held by MEHLER ENGINEERED PRODUCTS (Suzhou) Co. Ltd., China, and are subject to the local foreign exchange restrictions. They are therefore not available for all transactions.

19. EQUITY AND RESERVES

The changes in equity are shown separately in the consolidated statement of changes in equity.

Subscribed capital

The subscribed capital amounts to €20,176,917.80 (previous year: €20,176,917.80) and is divided into 7,760,353 (previous year: 7,760,353) no-par-value bearer shares that each carry the same rights, and specifically the same voting rights. Each share carries one vote at the Annual General Meeting. There are no different classes of shares.

Authorised capital

The Annual General Meeting on 7 July 2017 further authorised the Management Board, with the consent of the Supervisory Board, to increase the Company's share capital once or several times until 2022 to a limit of €3,444,711.92 by issuing up to 1,324,889 new no-par-value bearer shares, each with a proportionate interest in the share capital of €2.60, in return for cash and/or contributions in kind (authorised capital 2017). Shareholders must generally be given a shareholders' subscription right, also by way of indirect subscription under section 186 (5), sentence 1 of the German Stock Corporation Act (AktG). The Management Board is authorised to exclude the shareholders' subscription right with the consent of the Supervisory Board.

In the previous year, the Management Board and Supervisory Board resolved to issue new shares totalling 10.42% of the share capital or 714,462 no-par-value shares.

More specifically, the issue of new shares in the amount of 10.17% in non-cash capital increases was used exclusively for the purpose of acquiring companies, parts of companies or equity interests in Heiche Logistics GmbH, Schwaigern, Germany (270,524 no-par-value shares), Heiche Oberflächentechnik GmbH, Schwaigern, Germany (343,938 no-par-value shares), and the NOW Group (100,000 no-par-value shares). Additionally, 0.26% of the shares (18,045 shares) were issued in return for cash contributions.

The capital increases resolved in 2017 (403,400 no-par-value shares) were entered into the Company's commercial register with legal effect in the 2018 financial year. Of the capital increases resolved in 2018 (732,507 no-par-value shares), all were entered in the commercial register by 31 December 2018.

Capital reserve

The capital reserve contains the premium paid in excess of the nominal amount when the shares were issued.

Reserves/revenue reserves
The Group's reserves contain differences from the currency translation of foreign separate financial statements recognised directly in equity, changes in the fair values of assets measured at fair value through other comprehensive income and actuarial gains and losses. In addition to the allocation to the reserves of KAP AG, other reserves also include the offsetting of positive and negative differences from the capital consolidation of fully consolidated subsidiaries undertaken in accordance with German commercial law prior to 1 January 2004 and retained for IFRS accounting and also the effects of measurement through other comprehensive income from the first-time application of IAS/IFRS.

Consolidated balance sheet result
The consolidated balance sheet result contains the results of the companies included in the consolidated financial statements generated in past periods less distributions to the shareholders of KAP AG.

Non-controlling interests
The non-controlling interests comprise the shares attributable to other shareholders in assets, liabilities, annual results, the pro rata differences arising from currency translation of the annual financial statements of foreign subsidiaries recognised directly in equity, and other items of other comprehensive income recognised under reserves.

Capital management
Our goal is to secure the Group's ability to continue as a going concern in the long term and generate appropriate returns for shareholders. This also includes ensuring that sufficient liquidity and access to the capital market are available at all times. The management of the capital structure takes account of the overall economic conditions as well as the risks arising from the underlying assets.

We aim to achieve these goals by optimising the capital structure through corporate actions, acquisitions and divestments, restructuring measures and the reduction of financial liabilities.

Capital management in the strict sense covers equity and reserves and non-current and current financial liabilities. The key figures used for capital management are identical to the items described in this way in the statement of financial position.

20. SHARE-BASED REMUNERATION
Since 2017, KAP AG has maintained a virtual stock option programme with cash settlement The programme stipulates that the beneficiaries receive an entitlement to cash settlement from the Company upon the exercise of the option. The entitlement to cash settlement is equal to the difference between the average share price (Xetra trading, Deutsche Börse AG, Frankfurt am Main) of the last 20 trading days prior to exercising the option and the base value of €30 or €33. The entitlement is limited to €40 per option. An adjustment is made for dividend distributions made since the granting of the virtual stock options and any dilution effects in the event of capital increases.

On a one-time basis on the start of his employment on 1 August 2017, one member of the Management Board was granted 100,000 virtual stock options, which vest over a period of four years. The exercise date is 31 July 2021. As capital increases took place between the granting of the virtual stock options and the reporting date, the number of virtual stock options increased to 117,147 (previous year: 119,562). As of the reporting date, the remaining term of the virtual stock options was 19 months until the exercise date. The obligation amounts to €157 thousand (previous year: €249 thousand). Expenses from allocations to provisions amounted to €92 thousand in the financial year (previous year: €150 thousand).

Another Management Board member was also granted 100,000 virtual stock options on a one-time basis as of 1 November 2018. These vest over a period of four years, with the vesting period commencing on his start of employment on 1 May 2018. The exercise date is 30 April 2022. As capital increases took place between the granting of the virtual stock options and the reporting date, the number of virtual stock options increased to 110,423 (previous year: 112,700). As of the reporting date, the remaining term of the virtual stock options was 28 months until the exercise date. The obligation amounts to €64 thousand (previous year: €99 thousand). Expenses from allocations to provisions amounted to €35 thousand in the financial year (previous year: €99 thousand).

At the beginning of the period, a total of 232,262 virtual stock options were outstanding. No further options were granted in the reporting period. As of the reporting date, 227,570 virtual stock options were outstanding, none of which were exercisable.

21. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The item in the statement of financial position breaks down as follows:

in € thousands	31/12/2019	31/12/2018	31/12/2017	31/12/2016	31/12/2015
Pension obligations	19,682	17,829	18,199	20,667	19,332
Similar obligations	218	251	281	292	205
	19,900	**18,080**	**18,480**	**20,958**	**19,537**

Pension obligations

The occupational pension scheme consists of defined contribution and defined benefit pension plans. In the case of the defined benefit pension plans, there is an obligation to pay the benefits promised. The actuarial risk and the investment risk remain with the Group. Provisions are recognised for the obligations from entitlements and current benefits to eligible and contributing employees and former employees and their surviving dependants. The benefits are based on individual commitments, which differ from country to country and from company to company. As a rule, they are determined based on the length of service and remuneration of employees.

In the case of the defined contribution pension plans, there are no further obligations beyond the payment of contributions to external pension providers. The amount of the obligations is calculated using actuarial methods. The current contribution payments are recognised as pension expenses for the respective year.

There are significant pension obligations from defined-benefit pension commitments at MEHLER Aktiengesellschaft in the amount of €10,712 thousand (previous year: €10,086 thousand), MEHLER ENGINEERED PRODUCTS GMBH in the amount of €2,515 thousand (previous year: €2,200 thousand) and Gear Motion GmbH in the amount of €4,846 thousand (previous year: €4,047 thousand). The commitments provide for lifelong pension payments depending on length of service and gross basic salary on the occurrence of the insured event and generally also include benefits in the event of disability and death. The insured event occurs at the latest at the age of 65. As a rule, a vested entitlement exists if the beneficiary has reached the age of 35 at the time of leaving the company or if uninterrupted employment with the company began at least twelve years previously and the pension commitment has existed for at least three years. All pension schemes are already closed for new employees.

For the KAP Group, risks from pension commitments arise primarily from changes in the actuarial interest rate, the adjustment of current benefits and a longer life expectancy. Apart from the annual allocation to the pension provision, no other measures were taken to meet the existing obligations.

Pension commitments made under deferred compensation agreements are covered by the conclusion of life insurance policies as plan assets. The fair value of plan assets is significantly influenced by the interest rate environment on capital markets and the underlying guaranteed interest rate.

Composition of pension obligations

in € thousands	2019	2018	2017	2016	2015
Present value of the unfunded obligations	21,479	19,588	19,943	22,375	21,004
Fair value of plan assets	–1,797	–1,759	–1,744	–1,708	–1,672
Pension obligations as of 31 December	**19,682**	**17,829**	**18,199**	**20,667**	**19,332**

Development of the pension provisions

in € thousands	2019	2018	2017	2016	2015
Balance as of 1 January	**17,829**	**18,199**	**20,667**	**19,332**	**20,218**
Pensions paid	–1,079	–1,091	–1,078	–1,036	–1,064
Allocation	2,951	694	–951	2,467	178
Addition	–	27	745	–	–
Disposal	–	–	–634	–96	–
Reversal	–	–	–550	–	–
Currency differences	–19	–	–	–	–
Balance as of 31 December	**19,682**	**17,829**	**18,199**	**20,667**	**19,332**
– of which pension provisions	21,479	19,588	19,943	22,375	21,004
– of which assets	–1,797	–1,759	–1,744	–1,708	–1,672

Pension obligations of €1,078 thousand (previous year: €1,106 thousand) are due within one year. In more than one year, but within five years, €2,616 thousand (previous year: €4,281 thousand) falls due. After more than five years, €16,206 thousand (previous year: €12,443 thousand) falls due.

Pension expenses

in € thousands	2019	2018	2017	2016	2015
Current service cost	24	24	23	43	48
Interest expense	319	327	251	374	394
Deferred compensation	–	–	–	–	–
Past service cost	–	–	–	–	–
Components recognised through profit and loss	**343**	**350**	**274**	**417**	**442**
Allocations of actuarial gains (-)/losses (+) recognised directly in equity					
– from changes in financial assumptions	2,442	–	–1,596	2,102	–
– from changes in demographic assumptions	–	254	–	–	–
– from adjustments based on experience	189	115	–151	–26	–230
Actuarial gains (-)/losses (+) from plan assets	–23	–22	–31	–20	–34
Effect of asset limitation	–	–4	4	–7	1
Components recognised directly in equity	**2,608**	**343**	**–1,775**	**2,050**	**–263**
	2,951	694	–1,501	2,467	178
– of which allocation	2,951	694	–951	2,467	178
– of which reversal	–	–	–550	–	–

The interest expense and income from plan assets are netted and recognised in the interest result, actuarial gains and losses are recognised in equity under reserves as other comprehensive income, and service cost is recognised in personnel expenses.

The actual income from plan assets amounted to €55 thousand in the financial year (previous year: €53 thousand).

Significant calculation basis and assumptions for valuation

%	31/12/2019	31/12/2018	31/12/2017	31/12/2016	31/12/2015
Actuarial interest rate	0.90	1.85	1.85	1.25	2.00
Expected return on plan assets	3.00	3.00	3.00	3.00	3.00
Future salary increases	0.00	0.00	0.00	0.00	0.00
Future pension increases	1.75	1.75	1.75	1.75	1.75

	2019		2018	
in € thousands	Increase of 0.5 percentage points	Decrease of 0.5 percentage points	Increase of 0.5 percentage points	Decrease of 0.5 percentage points
Present value of the obligation	18,633	21,302	17,016	19,307
Interest expense	274	90	419	274
Service cost	22	27	21	26

Similar obligations
The costs of medical care for employees in South Africa after retirement are recognised as similar obligations. Obligations resulting from this existed at KAP Textile Holdings SA Limited on the reporting date.

The following assumptions were used for the calculation:

%	31/12/2019	31/12/2018	31/12/2017	31/12/2016	31/12/2015
Actuarial interest rate	9.00	9.00	8.76	8.76	7.37
Increase in healthcare costs	6.73	6.73	7.56	7.56	6.18

22. FINANCIAL LIABILITIES

All interest-bearing liabilities of the KAP Group are recognised under financial liabilities, broken down by their maturity.

in € thousands	31/12/2019	Of which remaining term of more than 1 year	31/12/2018	Of which remaining term of more than 1 year
Banks	78,060	64,570	83,118	59,005
Finance leases	15,346	13,566	481	15
Affiliated companies	–	–	–	–
Investees	–	–	–	–
Third parties	667	8	3,915	379
	94,073	**78,143**	**87,514**	**59,399**

The effective interest rates of the liabilities to banks range between 1.25% and 9.75% (previous year: 1.25% and 12.45%).

The financing by some banks is linked to an equity ratio of 30%. The ratio of net debt to EBITDA must not exceed 3.0. The financial key figures agreed in the loan agreement were complied with as of the end of the financial year.

In the case of financial liabilities, the fair values do not differ significantly from the carrying amounts, as the interest payments on these loans either almost correspond to current market interest rates or the loans are short-term.

23. OTHER NON-CURRENT LIABILITIES

In addition to liabilities with a maturity of more than one year, this item includes liabilities that are specific in terms of occurrence and amount but with a maturity of more than twelve months in the future. A discount is applied if the liabilities are not interest-bearing.

24. OTHER PROVISIONS

in € thousands	01/01/2019	Currency difference	Additions [1]	Disposals [1]	Allocation	Utilisation	Reversal	31/12/2019
Personnel	7,973	3	–	–	7,743	–7,073	–400	8,247
Complaints and guarantees	13,329	2	–	–	1,325	–736	–3,923	9,997
Restructuring measures	442	–	–	–	574	–665	–	351
Impending losses from pending transactions	859	–	–	–	335	–377	–368	449
Other provisions	2,551	11	–	–	3,322	–848	–1,281	3,756
	25,154	**17**	**–**	**–**	**13,299**	**–9,700**	**–5,972**	**22,799**

[1] From changes in the consolidated group.

Personnel provisions mainly include bonuses, severance payments, flexitime credits and holiday entitlements. There are uncertainties regarding the amount and timing of the outflows. These are expected to result in disbursements within one year.

Provisions for impending losses from pending transactions were recognised if neither party had met their obligations in full. There are uncertainties regarding the amount and timing of the outflows. These are expected to result in disbursements within one year.

The remaining provision for restructuring measures of €442 thousand was recognised on the basis of the resolution to close the **precision components** segment's Haslach site. Implementation was completed in the 2019 financial year.

A large number of risks and obligations from the operating business are recognised under other provisions. There are uncertainties regarding the amount and timing of the outflows. It is expected that other provisions of €4,247 thousand (previous year: €5,477 thousand) will have a term of more than one year. Interest expense amounted to €17 thousand (previous year: €7 thousand).

25. TRADE PAYABLES

Trade payables comprise outstanding liabilities arising from the provision of goods and services, all of which are due within one year. The carrying amounts of trade payables are equal to their fair values due to their short-term nature.

26. ACTUAL INCOME TAXES

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

27. OTHER LIABILITIES

in € thousands	31/12/2019	31/12/2018
Contract liabilities	2,391	1,436
Other liabilities	7,321	6,983
	9,712	**8,419**

The revenue recognised in relation to contract liabilities in the reporting period that was included in contract liabilities at the start of the period amounted to €1,436 thousand (previous year: €1,003 thousand).

The item mainly includes accrued wages and salaries and liabilities for social security of €722 thousand (previous year: €798 thousand) and accruals from prepayments received for contracts with a term beyond the reporting date. Apart from the accruals of €735 thousand (previous year: €181 thousand), the other liabilities are of a financial nature.

The other liabilities have a remaining term of up to one year.

CONSOLIDATED STATEMENT OF INCOME

28. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group generates revenue from contracts with customers through the sale of its products/services both at a point in time and over time.

in € thousands	2019	2018
Continuing operations	372,803	389,829
Discontinued operations	–	32,510
	372,803	**422,339**

The breakdown of revenue by product group and geographical area is presented in the segment reporting under note 48.

29. OTHER OPERATING INCOME

in € thousands	2019	2018[1]
Disposal of fixed assets	451	1,249
Exchange rate gains	1,179	1,673
Reversal of provisions	2,593	2,368
Reversal of loss allowances for expected losses	312	214
Rental income from investment properties	3,885	3,880
Rental income	750	744
Insurance compensation	15,669	188
Other income	4,833	4,188
	29,672	**14,504**

[1] Restated due to error correction.

Other income mainly comprises income from the refund of expenses of €1,274 thousand (previous year: €396 thousand), out-of-period income of €533 thousand (previous year: €857 thousand) and income from the difference from the adjusted purchase price allocation of the Heiche Group of €445 thousand.

30. COST OF MATERIALS

in € thousands	2019	2018[1]
Raw materials and supplies	170,281	184,865
Purchased services	33,527	34,806
	203,808	**219,671**

[1] Restated due to error correction. The figures for the previous year have changed. €924 thousand of raw materials and supplies was reclassified to purchased services.

31. PERSONNEL EXPENSES

in € thousands	2019	2018[1]
Wages and salaries	82,982	77,080
Social security contributions and expenses for pension schemes	17,427	15,848
	100,409	**92,928**

[1] Restated due to error correction.

Social security contributions and expenses for pension schemes include expenses for statutory pension insurance in the amount of €4,044 thousand (previous year: €3,532 thousand) and for defined contribution plans of €486 thousand (previous year: €461 thousand).

On average, the Group employed:

	2019	2018
Wage earners	2,009	1,979
Salaried employees	840	813
	2,849	**2,792**
Trainees	64	62
	2,913	**2,854**

32. DEPRECIATION AND AMORTISATION

in € thousands	2019	2018
Intangible assets	6,919	3,184
Property, plant and equipment	39,520	21,479
Investment property/properties	310	312
	46,749	**24,974**

The write-downs of intangible assets include impairment of goodwill of €2,559 thousand (previous year: €0 thousand) concerning the **surface technologies** segment.

Moreover, the write-downs of property, plant and equipment include impairment of €14,390 thousand (previous year: €805 thousand). €9,493 thousand (previous year: €0 thousand) of this was accounted for by the **engineered products** segment and €4,897 thousand (previous year: €805 thousand) by the **surface technologies** segment.

33. OTHER OPERATING EXPENSES

in € thousands	2019	2018
Maintenance	12,504	11,439
Outgoing freight	6,478	7,411
Additions to loss allowances for expected losses	782	381
Commissions	1,084	1,053
Insurance	1,623	1,441
Credit losses	190	46
Legal and consulting costs	9,759	10,406
Packaging material	3,107	3,397
Rent and leasing	834	2,479
Currency exchange losses	1,186	1,679
Allocation to provisions	13	11
Disposal of fixed assets	616	379
Other taxes	1,021	954
Expenses for investment properties	1,159	612
Complaints and guarantees	1,590	1,470
Other expenses	18,277	14,326
	60,226	**57,484**

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

34. RESULT FROM DIVESTED ASSETS AND LIABILITIES

in € thousands	2019	2018
	–	**18**

The amount from the previous year is accounted for by the deconsolidation of ELBTAL OF AMERICA INC.

35. INTEREST RESULT

in € thousands	2019	2018
Interest income		
Third parties	34	91
Investments	83	68
Other	479	17
Interest expense		
Third parties	–3,720	–4,045
Affiliated companies	–	–
Investments	–	–
Compounding of interest on pension obligations	–319	–327
Finance leases	–437	–16
Other	–778	–7
	–4,657	**–4,219**

36. OTHER FINANCIAL RESULT

in € thousands	2019	2018
	–1,253	**–996**

Expenses and income from other financial assets and liabilities that do not result from the operating business and do not constitute net income/loss from investments or the interest result are recognised in other financial result.

The amount in the financial year particularly relates to currency exchange losses from financing activities of €1,196 thousand (previous year: €297 thousand).

37. INCOME TAXES

in € thousands	2019	2018[1]
Actual income taxes	–3,320	–6,001
Deferred taxes – temporary valuation differences	2,562	1,446
Deferred taxes – tax loss carry-forwards	–209	–131
	–966	**–4,686**

[1] Restated due to error correction.

Deferred tax assets and liabilities are calculated using a tax rate of 30% for German companies. In addition to the corporation tax rate, this includes the solidarity surcharge on corporation tax of 5.5% and the weighted tax rate for commercial income.

The calculation of the actual taxes for the respective financial year was made on the basis of the tax rates applicable for the assessment period.

For foreign subsidiaries, the applicable or anticipated income tax rates of the respective country are used. They are between 9% and 38% (previous year: between 19% and 38%).

The tax expense for the financial year can be reconciled with the consolidated result as follows:

in € thousands	2019	2018[1]
Consolidated annual result before income taxes including discontinued operations	–13,152	19,269
KAP Group income tax rate	30%	30%
Expected income taxes	**3,946**	**–5,781**
Variance due to different tax rates	–1,993	415
Tax reductions (+)/increases (–) due to tax-exempt income/non-tax-deductible expenses	–1,568	–611
Taxes on previous years	904	341
Change in loss allowance for deferred tax assets	–4,463	–356
Other effects	2,208	1,306
Income taxes according to the statement of income	**–966**	**–4,686**
Effective tax rate	**–7%**	**25%**

[1] Restated due to error correction.

Other tax effects largely comprise write-downs that are not deductible due to local tax laws. Due to actuarial gains and losses being recognised directly in other comprehensive income, deferred taxes in the amount of €372 thousand (previous year: €–232 thousand) were also recognised directly in other comprehensive income in equity.

38. GAINS/LOSSES FROM DISCONTINUED OPERATIONS

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

in € thousands	2018
Revenue	**32,510**
Change in inventories and other own work capitalised	1,745
Total performance	**34,255**
Other operating income	266
Cost of materials	–17,081
Personnel expenses	–9,680
Depreciation and amortisation of intangible assets, property, plant and equipment and investment property	–1,850
Other operating expenses	–3,122
Result from divested assets and liabilities	7,239
Operating result	**10,028**
Income taxes	–18
Earnings after taxes	**10,010**
Result share of non-controlling interests	–
Earnings attributable to shareholders of KAP AG	**10,010**

The gains/losses from discontinued operations of €3,337 thousand (previous year: €1,079 thousand) relate to contingent liabilities. We have made a commitment to the acquirer of the MVS Group, which was sold in the 2014 financial year, for any risks arising from warranties and price audits for revenue up to the date of the disposal of the shares. The amount is attributable to the shareholders of KAP AG. A reassessment of the obligation was necessary in the 2019 financial year.

39. SHARE OF THE RESULT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

The item relates to the shareholders of various subsidiaries other than KAP AG. The share of the result contains the compensation obligation from a profit and loss transfer agreement.

40. EARNINGS PER SHARE

Earnings per share is calculated as the consolidated annual result attributable to KAP AG shareholders divided by the weighted average number of the shares outstanding during the financial year.

	2019	2018[1]
Consolidated annual result of KAP AG shareholders (in € thousands)	–14,044	14,247
Weighted average shares (in thousands)	7,760	7,195
Earnings per share (in €)		
– of which from continuing operations	–2.25	0.43
– of which from discontinued operations	0.43	1.55
	–1.82	**1.98**

[1] Restated due to error correction.

There were no effects resulting in the dilution of earnings per share in the reporting year or the previous year.

OTHER DISCLOSURES

41. EXPENSES FOR RESEARCH AND DEVELOPMENT

Expenses for research and development in the reporting year amounted to €1,721 thousand (previous year: €342 thousand).

42. CONTINGENT ASSETS AND LIABILITIES

A contingent asset arises from possible reimbursement payments by the insurer for damage caused by the fire at the Heinsdorfergrund site on 26 June 2019.

43. CONTINGENT LIABILITIES

The following contingent liabilities could in future lead to an outflow of resources associated with economic benefits. They are valued at nominal value.

in € thousands	2019	2018
Guarantees	**–**	**–**
– of which affiliated companies	–	–
Warranties	**73**	**99**
– of which affiliated companies	–	–
Collateral	**–**	**–**
– of which affiliated companies	–	–
Total	**73**	**99**
– of which affiliated companies	–	–

44. OTHER FINANCIAL OBLIGATIONS

in € thousands	2019	2018
Intangible assets	14	–
– of which affiliated companies	–	–
Property, plant and equipment	3,854	1,474
– of which affiliated companies	–	–
Investment property/properties	–	6
– of which affiliated companies	–	–
Obligations from non-cancellable leases	522	24,393
– of which affiliated companies	–	–
Obligation from liquidity commitments	10	–
– of which affiliated companies	–	–
Total	4,400	25,873
– of which affiliated companies	–	–

45. FINANCIAL INSTRUMENTS

The carrying amounts and fair values of financial instruments are allocated to measurement categories as shown below:

Statement of financial position item	Measurement category under IFRS 9	Measurement category under IAS 39	Carrying amount	Fair value hierarchy level 1	Fair value hierarchy level 2
in € thousands			31/12/2019		
ASSETS					
Shares in affiliated companies	At fair value through profit or loss		28	–	–
Shares in participations	At fair value through profit or loss		50	–	–
Loans to participations	Financial assets measured at amortised cost	Loans and receivables	1,029	–	–
Other loans	Financial assets measured at amortised cost	Loans and receivables	189	–	–
Trade receivables	Financial assets measured at amortised cost	Loans and receivables	58,950	–	–
Other receivables and assets	Financial assets measured at amortised cost	Loans and receivables	12,063	–	–
Cash and cash equivalents			5,077	–	–
EQUITY AND LIABILITIES					
Financial liabilities	Financial liabilities measured at amortised cost	Financial liabilities	94,073	–	–
Other non-current liabilities	Financial liabilities measured at amortised cost	Financial liabilities	221	–	–
Trade payables	Financial liabilities measured at amortised cost	Financial liabilities	23,774	–	–
Other liabilities	Financial liabilities measured at amortised cost	Financial liabilities	6,586	–	–

Fair value hierarchy 1: Fair values were determined on the basis of quoted, unadjusted prices in active markets for these or identical assets and liabilities.

Fair value hierarchy 2: Fair values were determined on the basis of parameters for which either directly or indirectly derived quoted prices are available on an active market.

Fair value hierarchy 3: Fair values were determined on the basis of parameters for which no observable market data was available.

The carrying amounts represent reasonable approximations of the fair values.

	Fair value hierarchy level 3	Fair value	Carrying amount	Fair value hierarchy level 1	Fair value hierarchy level 2	Fair value hierarchy level 3	Fair value
		31/12/2019	31/12/2018				31/12/2018
	–	28	28	–	–	–	28
	–	50	50	–	–	–	50
	–	1,029	1,084	–	–	–	1,084
	–	189	213	–	–	–	213
	–	58,950	62,935	–	–	–	62,935
	–	12,063	6,400	–	–	–	6,400
	–	5,077	11,727	–	–	–	11,727
	–	94,073	87,514	–	–	–	87,514
	–	221	349	–	–	–	349
	–	23,774	24,292	–	–	–	24,292
	–	6,586	6,802	–	–	–	6,802

Gains and losses on financial instruments

Net gains or losses and total interest income and expenses for financial assets and financial liabilities that were not measured at fair value through profit or loss can be allocated to the various categories of financial instruments as follows:

in € thousands	2019	2018
Loans and receivables		
Interest income	117	160
Impairments (–)/reversals	–663	–400
Financial liabilities		
Interest expenses	4,175	4,062
Exchange rate gains and losses (–) from financing activities	–1,251	–297

Interest income from financial assets measured at amortised cost is calculated using the effective interest rate on the gross carrying amount of the financial asset. For assets whose creditworthiness is impaired, the effective interest rate is subsequently applied to the amortised cost of the financial asset (after deducting the loss allowance).

Credit and default risk

The amount of the maximum risk exposure for financial assets on the reporting date is equal to the amounts recognised in the statement of financial position if the counterparties cannot meet their payment obligations. Cash and cash equivalents are also subject to the impairment rules of IFRS 9, but no impairment was identified.

Credit information and references are obtained to minimise the risk of default. The Group has commercial credit insurance for some trade receivables. The KAP Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and other financial assets measured at amortised cost.

The expected loss rates for trade receivables are based on the payment profiles of revenues over a period of 36 months before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on external market parameters, internal factors and specific information affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as of 31 December 2019 (upon adoption of IFRS 9) was determined as follows for trade receivables and contract assets:

31/12/2019

in € thousands	Up to 3 months	3 to 6 months	6 to 9 months	More than 9 months	Total
Expected loss rate	0–25%	0–40%	0–65%	0–100%	
Gross carrying amount of trade receivables	60,070	663	163	682	**61,578**
Loss allowances	2,014	49	22	546	**2,632**

01/01/2019

in € thousands	Up to 3 months	3 to 6 months	6 to 9 months	More than 9 months	Total
Expected loss rate	0–25%	0–32%	0–50%	0–100%	
Gross carrying amount of trade receivables	63,291	995	304	633	**65,223**
Loss allowances	1,827	60	57	448	**2,392**

Liquidity risk

Solvency is ensured at all times through liquidity planning, a cash reserve and confirmed credit lines. The cash-pooling system ensures that the operating units are supplied with sufficient liquidity at all times. It is managed centrally directly by KAP AG. Diversification with respect to lenders reduces dependency on individual lenders.

The maturity structure of the contractual, non-discounted and expected cash flows of the financial liabilities is as follows:

31/12/2019

in € thousands	Remaining maturity of up to 1 year	Remaining maturity of more than 1 to 5 years	Remaining maturity of more than 5 years	Total
Other non-current liabilities	–	221	–	221
Banks	13,490	52,110	12,460	78,060
Finance leases	1,780	4,419	9,147	15,346
Affiliated companies	–	–	–	–
Investees	–	–	–	–
Third parties	659	–	8	667
Trade payables	23,774	–	–	23,774
Other liabilities	6,586	–	–	6,586
	46,291	**56,750**	**21,615**	**124,655**

31/12/2018

in € thousands	Remaining maturity of up to 1 year	Remaining maturity of more than 1 to 5 years	Remaining maturity of more than 5 years	Total
Other non-current liabilities	–	349	–	349
Banks	24,113	49,005	10,000	83,118
Finance leases	467	15	–	481
Affiliated companies	–	–	–	–
Investees	–	–	–	–
Third parties	3,536	371	8	3,915
Trade payables	24,292	–	–	24,292
Other liabilities	6,802	–	–	6,802
	59,210	**49,739**	**10,008**	**118,957**

Market risks

The main market risks to which the KAP Group is exposed arise from changes in exchange rates, interest rates and prices of raw materials.

Hedging against these risks is generally achieved by means of closed positions in which values or cash flows from non-derivative financial instruments match each other. To further reduce the risk, forward transactions are concluded in the form of swaps when required.

Currency risk

For KAP AG as an international group, foreign exchange risks arise on various sales and procurement markets from the perspective of the respective national companies. In addition, there are occasionally risks associated with foreign companies' financing activities with KAP AG. We consider these risks to be manageable compared to the costs incurred in concluding hedges and therefore largely do not hedge against exchange rate fluctuations.

Key foreign currency positions as of 31 December 2019:

	US dollar		British pound		Russian rouble	
in thousands	USD	EUR	GBP	EUR	RUB	EUR
ASSETS						
Trade receivables	1,230	1,096	226	264	–	–
Other assets	39	35	–	–	–	–
Cash and cash equivalents	290	259	34	40	2,329	33
Total	**1,559**	**1,390**	**260**	**304**	**2,329**	**33**
EQUITY AND LIABILITIES						
Financial liabilities	–	–	–	–	–	–
Trade payables	260	234	–	–	–	–
Total	**260**	**234**	**–**	**–**	**–**	**–**
Revenue	**11,258**	**10,026**	**1,902**	**2,156**	**–**	**–**

Key foreign currency positions as of 31 December 2018:

	US dollar		British pound		Russian rouble	
in thousands	USD	EUR	GBP	EUR	RUB	EUR
ASSETS						
Trade receivables	2,557	2,223	324	359	–	–
Other assets	23	20	–	–	–	–
Cash and cash equivalents	978	863	37	41	–	–
Total	**3,558**	**3,106**	**361**	**400**	**–**	**–**
EQUITY AND LIABILITIES						
Liabilities from trade payables	233	203	–	–	–	–
Other liabilities	855	746	–	–	–	–
Total	**1,088**	**949**	**–**	**–**	**–**	**–**
Revenue	**14,060**	**11,867**	**2,802**	**3,163**	**435**	**6**

Our foreign subsidiaries also carry out transactions in euros. These transactions may lead to corresponding exchange rate gains or losses in the respective local financial statements.

Risk concentration

The concentration of risks can result from dependence on a few major customers. A risk concentration results when one customer accounts for 10% or more of the Group's revenue.

In the 2019 financial year, more than 10% of the **engineered products** segment's revenue was attributable to one (previous year: one) customer.

Interest rate risk

Interest rate risks arise when variable-rate loans are taken out. If necessary, we hedge against the risk of rising interest rates through the acquisition of payer swaps.

Financing in Germany is principally carried out via a syndicated loan with a term of five years. The interest rate depends on Euribor, the net debt to EBITDA ratio, how much of the credit line has been drawn down and the nature of its use. Variable-interest working capital lines are in place at various foreign sites. The table below shows the amount by which interest expense would increase or decrease (–) in the event of a change in the interest rate level:

	2019		2018	
in € thousands	Increase of 0.5 percentage points	Decrease of 1.0 percentage points	Increase of 0.5 percentage points	Decrease of 1.0 percentage points
Interest expense	328	–656	369	–738

46. EVENTS AFTER THE REPORTING DATE

On 22 January 2020, the Management Board and Supervisory Board decided on an extensive reorganisation of the **engineered products** segment. Operating activities with negative contribution margins are to be discontinued and a sustainable improvement of profitability achieved in this segment. The measures agreed include the complete closure of the Fulda site whose focus is on the production of cord fabric, and of a site in the Czech Republic where in particular soft cords and raw twines are produced. In addition, another site in the Czech Republic, which manufactures tents and technical fabrics, is also to be sold. In the 2019 financial year, revenue of around €40 million and normalised EBITDA of €0.0 million was attributable to these activities. The restructuring measures are associated with an anticipated negative impact on EBITDA of around €14 million that will only impact development in the 2020 financial year. This is expected to lead to a decrease in revenue by €12.5 million compared to the original planning for 2020 without restructuring and to a decrease compared to the revenue in 2019 by €4.8 million and to an improvement in normalised EBITDA compared to 2019 of €10.0 million. The plan is to implement the measures in full in the 2020 financial year. The full-year effect on revenue and EBITDA will not be visible until the 2021 financial year. Group management expects revenue of around €122 million and EBITDA of €12.4 million for 2021. In addition, it anticipates both a reduction in customer concentration and increased diversification of the industrial sectors in which the segment's products are used. The effects described do not take account of the impact of the coronavirus pandemic.

We anticipate a negative impact on our business in Germany and abroad from the coronavirus pandemic. The further course of the epidemic represents an uncertainty factor that could not be conclusively assessed by the report preparation date. On 30 January 2020, the World Health Organisation (WHO) declared a Public Health Emergency of International Concern due to the outbreak of the coronavirus. Since 11 March 2020, the WHO has classified the spread of the coronavirus as a pandemic. The further course of the spread of the coronavirus and its consequences for the business development of KAP AG will be monitored on an ongoing basis. On the basis of the latest developments, KAP AG expects the increasing spread of the coronavirus and the containment measures needed to have a negative effect in all key markets. There continue to be risks in upstream and downstream processes. The estimates and assumptions known to KAP AG are taken into account and described in the forecast report. In addition, no significant further negative impacts are known or foreseeable at the current time. Further negative impacts are, however, possible over the course of the year. Otherwise, no events of particular significance that are expected to have a significant influence on the financial position, cash flows or financial performance of the KAP Group or KAP AG occurred after 31 December 2019.

47. 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.

Cash and cash equivalents decreased by €7 thousand (previous year: €62 thousand) as a result of exchange rate changes. Cash flow from operating activities comprises:

in € thousands	2019	2018
Interest		
Interest paid (–)	–3,870	–4,106
Interest received	99	211
	–3,771	**–3,895**
Income taxes		
Income taxes paid (–)	–3,464	–4,156
Income taxes refunded	2,268	635
	–1,196	**–3,521**

The change in liabilities from financing activities was as follows:

in € thousands	01/01/2019	Net changes in cash	Non-cash changes: Exchange rate changes	Non-cash changes: Changes in consolidated group	Non-cash changes: Other changes	31/12/2019
Banks	83,118	–5,075	–13	–	–	78,060
Finance leases	481	–2,188	–	–	17,053	15,346
Affiliated companies	–	–	–	–	–	–
Investees	–	–	–	–	–	–
Third parties	3,915	–3,248	–	–	–	667
	87,514	**–10,511**	**–13**	**–**	**17,053**	**94,073**

in € thousands	01/01/2018	Net changes in cash	Non-cash changes: Exchange rate changes	Non-cash changes: Changes in consolidated group	Non-cash changes: Other changes	31/12/2018
Banks	78,447	13,923	361	–9,613	–	83,118
Finance leases	–	–	–	478	3	481
Affiliated companies	17	–17	–	–	–	–
Investees	3	–3	–	–	–	–
Third parties	4,204	–289	–	–	–	3,915
	82,672	**13,614**	**361**	**–9,135**	**3**	**87,514**

As a result of the sale of Geiger Fertigungstechnologie GmbH, cash and cash equivalents in the amount of €397 thousand were transferred in the previous year. The proceeds from the sale of Geiger Fertigungstechnologie GmbH were €37,708 thousand.

Geiger Fertigungstechnologie GmbH's share in the cash flow from operating activities in the previous year was €523 thousand and its share in the cash flow from investing activities was €–3,171 thousand.

The following assets and liabilities were disposed of:

in € thousands	2018
Non-current assets	21,451
Current assets	16,785
	38,236
Non-current liabilities	–
Current liabilities	28,680
	28,680

The acquisition of shares in the Heiche Group in the previous year led to a cash outflow of €19,360 thousand. Cash and cash equivalents amounting to €2,703 thousand were acquired.

The following assets and liabilities were acquired:

in € thousands	2018
Non-current assets (including goodwill)	62,388
Current assets	11,798
	74,186
Non-current liabilities	8,937
Current liabilities	20,184
	29,121

48. SEGMENT REPORTING

The segment reporting is based on the information reported to the Management Board as the chief operating decision-maker.

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

The portfolio is divided into the following more detailed segments to better define the business activities:

– engineered products
– flexible films
– it/services
– precision components
– surface technologies

Engineered products, flexible films, it/services, precision components and **surface technologies** each represent specific product groups.

The **engineered products** segment develops, produces and sells a broad range of special products made from technical threads and fabrics that are used, for example, in the automotive industry as reinforcing supports for the tyre industry, for roof-sarking membranes or reinforced plaster or in road construction.

The **flexible films** segment specialises in the coating and packaging of fleece, fabrics, films and paper used as roof-sarking membranes and in agriculture.

The **it/services** segment develops innovative solutions and provides IT and engineering services.

The **precision components** segment concentrates on the manufacture of complex metal, milled and plastic parts.

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

In addition to KAP AG, the holding companies KAP Textile Holdings SA Limited, MEHLER Aktiengesellschaft, KAP Beteiligungs Inc., KAP Precision Components GmbH (formerly GM Tec Industries Holding GmbH), KAP Surface Holding GmbH, Mehler Grundstücksverwaltungs GmbH and GbR MEHLER AG/DAUN & Cie. AG are allocated to the reconciliation column.

The reconciliation of expenses and income to the corresponding Group figures are shown in the "Additional information on segment reporting" table in the notes to the consolidated financial statements.

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").

In the **engineered products** segment, revenue with one customer amounted to €35,678 thousand (previous year: €49,595 thousand). The **engineered products** segment includes impairments of property, plant and equipment of €9,493 thousand (previous year: €0 thousand).

In the **precision components** segment, revenue of €6,269 thousand (previous year: €12,162 thousand) was generated with one customer.

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

Working capital is defined as inventories plus trade receivables less trade payables.

The reconciliation to EBITDA includes the elimination of inter-company results, receivables and liabilities and also expenses and income that cannot be allocated to the business segments.

The **surface technologies** segment includes impairments of goodwill of €2,559 thousand (previous year: €0 thousand) and impairments of €4,897 thousand (previous year: €805 thousand) due to the fire at the Heinsdorfergrund site.

Revenue, non-current assets and investments
Segment revenue with external customers was allocated on the basis of the geographical locations of the customers. The total carrying amount of non-current assets and investments was determined according to the geographical location of the respective unit. Investments include the acquisition cost of intangible assets and property, plant and equipment.

SEGMENT REPORTING BY BUSINESS AREA

FROM 1 JANUARY TO 31 DECEMBER 2019

	engineered products		flexible films		it/services		precision components	
in € thousands	**2019**	**2018 [4]**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Revenue with third parties	150,676	169,147	89,238	88,447	19,257	18,668	49,525	67,636
Revenue with other segments	12	1	0	–	4,019	3,910	8	–
Revenue	**150,688**	**169,148**	**89,238**	**88,447**	**23,276**	**22,578**	**49,533**	**67,636**
Segment result [1]	1,482	11,742	10,121	9,143	3,030	2,299	2,165	10,826
Scheduled depreciation and amortisation	7,553	7,443	3,675	3,604	996	869	4,330	4,378
Operating result [2]	−15,564	4,299	6,445	5,538	2,034	1,430	−2,170	6,447
Interest income	411	322	38	80	18	22	277	120
Interest expenses	3,527	3,734	839	964	90	69	1,201	881
Income taxes	1,076	1,656	320	−781	6	152	167	145
Investments [3]	2,924	4,167	2,365	2,061	1,537	814	2,488	4,713
Working capital	52,866	63,100	21,100	22,761	2,168	1,646	15,380	17,510
Employees as of 31 December	948	1,046	326	326	120	124	619	630

	surface technologies		Reconciliation		Consolidation		Continuing operations	
in € thousands	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018 [4]**
Revenue with third parties	64,105	43,205	3	2,725	–	1	372,803	389,829
Revenue with other segments	20	39	–	–	−4,059	−3,950	–	–
Revenue	**64,125**	**43,244**	**3**	**2,725**	**−4,059**	**−3,949**	**372,803**	**389,829**
Segment result [1]	21,585	7,940	−4,855	−6,649	2,641	2,625	36,169	37,925
Scheduled depreciation and amortisation	12,157	6,549	829	1,145	256	985	29,796	24,169
Operating result [2]	1,972	585	−5,684	−7,794	2,387	2,445	−10,580	12,951
Interest income	238	45	5,209	4,915	−6,073	−5,342	118	161
Interest expenses	1,235	659	2,935	2,665	−6,071	−4,920	3,756	4,052
Income taxes	−831	349	228	3,828	0	24	966	5,372
Investments [3]	7,295	2,746	824	6,515	2	−2,112	17,435	18,904
Working capital	4,912	5,112	−1,328	−1,382	−20	−42	95,078	108,705
Employees as of 31 December	761	810	35	38	–	–	2,809	2,974

As the figures are presented in € thousands, the numbers may not add up due to rounding.
[1] The segment result is defined as the segment EBITDA.
[2] The surface technologies segment's operating result includes impairments of goodwill of €2,559 thousand (previous year: €0 thousand) and impairments of property, plant and equipment of €4,897 thousand (previous year: €805 thousand). The engineered products segment's operating result includes impairments of property, plant and equipment of €9,493 thousand (previous year: €0 thousand).
[3] Relates to intangible assets and property, plant and equipment.
[4] Restated due to error correction.

SEGMENT REPORTING BY GEOGRAPHIC AREA

FROM 1 JANUARY TO 31 DECEMBER 2019

in € thousands	Revenue with third parties [1]		Segment assets [2]		Investments [3]	
	2019	2018	2019	2018	2019	2018
Germany	151,312	161,593	210,364	219,767	10,305	13,465
Rest of Europe	144,533	149,712	93,791	106,681	6,166	8,070
North/South America	45,985	43,170	20,928	23,714	552	565
Asia	29,011	31,124	19,326	23,995	457	822
Other countries	1,962	4,225	212	249	–	0
Consolidation	0	5	–11,405	–12,009	–45	–4,018
Continuing operations	**372,803**	**389,829**	**333,216**	**362,398**	**17,435**	**18,904**

As the figures are presented in € thousands, the numbers may not add up due to rounding.
[1] Segment revenue with external customers by geographical area.
[2] Total carrying amount of the production sites.
[3] Acquisition/manufacturing costs of the production sites.

ADDITIONAL INFORMATION ON SEGMENT REPORTING

in € thousands	2019	2018
Segment result	**36,169**	**37,925**
Depreciation and amortisation of intangible assets, property, plant and equipment and investment property	–46,749	–24,974
Result from divested assets and liabilities	–	18
Operating result	**–10,580**	**12,969**
Interest result	–4,657	–4,219
Other financial result	–1,253	–996
Financial result	**–5,910**	**–5,214**
Earnings from continuing operations before income taxes	**–16,490**	**7,754**
Income taxes	–966	–4,686
Earnings from continuing operations after income taxes	**–17,456**	**3,068**
Earnings from discontinued operations after taxes	3,337	11,154
Consolidated annual result after taxes	**–14,119**	**14,222**
Result share of non-controlling interests	74	25
Consolidated annual result of KAP AG shareholders	**–14,044**	**14,247**

49. RELATED PARTY TRANSACTIONS

Companies that directly or indirectly have control over or are controlled by KAP AG are regarded as related parties unless these companies are included in the consolidated financial statements of KAP AG on the reporting date.

Furthermore, this term includes associates and joint ventures that can be significantly influenced or are jointly controlled.

The relationships with these companies are shown in the list of the investments of KAP AG under note 51.

FM-Verwaltungsgesellschaft mbH, Stadtallendorf, Germany, notified us in writing on 1 September 2014 in accordance with section 21 (1) of the German Securities Trading Act (WpHG) that its share of the voting rights in our Company exceeded the 25% threshold on 1 September 2014 and since that date has accounted for 29.889% (1,980,000 voting rights).

Mr Rüdiger Heiche, Schwaigern, Germany, notified us in writing on 12 September 2018 in accordance with section 33 (1) WpHG that his share of the voting rights in our Company exceeded the threshold of 3% on 10 September 2018 and amounts to 4.01%.

Mr Gunter Heiche, Schwaigern, Germany, notified us in writing on 12 September 2018 in accordance with section 33 (1) WpHG that his share of the voting rights in our Company exceeded the threshold of 3% on 10 September 2018 and amounts to 4.01%.

Mr William Elias Conway Jr notified us in writing on 3 January 2020 that his total share of the voting rights in our Company on 1 January 2020 pursuant to section 33 (1) WpHG now amounts to 45.51% of the voting rights and 25.51% of the instruments within the meaning of section 38 (1) 2 WpHG (right of first refusal in shareholder agreement (subject to condition precedent)). Of the voting rights, 45.51% (3,531,719 voting rights) are attributable to him pursuant to section 33 (1) in conjunction with section 34 (1) 1 WpHG via Project Diamant Bidco AG, Frankfurt am Main, Germany.

Mr Daniel Anthony D'Aniello notified us in writing on 7 January 2020 that his total share of the voting rights in our Company on 1 January 2020 pursuant to section 33 (1) WpHG now amounts to 45.51% of the voting rights and 25.51% of the instruments within the meaning of section 38 (1) 2 WpHG (right of first refusal in shareholder agreement (subject to condition precedent)). Of the voting rights, 45.51% (3,531,719 voting rights) are attributable to him pursuant to section 33 (1) in conjunction with section 34 (1) 1 WpHG via Project Diamant Bidco AG, Frankfurt am Main, Germany.

Mr David Mark Rubenstein notified us in writing on 3 January 2020 that his total share of the voting rights in our Company on 1 January 2020 pursuant to section 33 (1) WpHG fell below the threshold of 50% and now amounts to 45.51% of the voting rights and 25.51% of the instruments within the meaning of section 38 (1) 2 WpHG (right of first refusal in shareholder agreement (subject to condition precedent)). Of the voting rights, 45.51% (3,531,719 voting rights) are attributable to him pursuant to section 33 (1) in conjunction with section 34 (1) 1 WpHG via Project Diamant Bidco AG, Frankfurt am Main, Germany.

The parent company of KAP AG is Project Diamant Bidco AG, with registered office in Frankfurt am Main, Germany.

Project Diamant Bidco AG is included in the consolidated financial statements of CSP Diamant Luxco 1 Sàrl, which is registered in the Luxembourg commercial register under number B 210.172. This constitutes the largest group of companies. The consolidated financial statements will be published under CSP Diamant Luxco 1 Sàrl, Luxembourg. KAP AG prepares the consolidated financial statements for the smallest group of companies.

KAP AG's consolidated financial statements are published in the Federal Gazette under number HRB 5859 of the Fulda District Court.

Natural persons are considered to be related parties if they belong to the Management Board or the Supervisory Board of KAP AG or are close family members of such persons. This also applies to persons who control, jointly control or exert a significant influence over other companies within the KAP Group, or who hold a significant voting interest, directly or indirectly, in such companies. Information on the remuneration of the Management Board and Supervisory Board can be found in note 50 on the Management Board and Supervisory Board.

The mandates of the members of the Management Board and the other members of the Supervisory Board of KAP AG are listed under note 50.

The volumes of the transactions carried out during the financial year with related companies and the balances still outstanding on the reporting date break down as follows:

in € thousands	2019	2018
PARENT COMPANY		
Goods and services provided to the parent company		
Other income	16	87
Receivables from the parent company		
Trade receivables	11	104
AFFILIATED COMPANIES		
Receivables from affiliated companies		
Financial receivables	0	0
Liabilities to affiliated companies		
Financial liabilities	–	0
INVESTEES		
Goods and services provided to investees		
Interest income from loans granted	83	68
Other income	–	0
Receivables from investees		
Loans	1,029	1,084
Financial receivables	65	61

in € thousands	2019	2018
Liabilities to investees		
Financial liabilities	0	–
OTHER RELATED COMPANIES		
Goods and services provided to other related companies		
Sales transactions	–	–
Other income	–	–
Goods and services received from other related companies		
Sourced raw materials, contract production	–	–
Interest expenses from loans received	–	–
Other expenses	–	813
Receivables from other related companies		
Trade receivables	–	–
Liabilities to other related companies		
Financial liabilities	–	–
Trade receivables	–	–

As a member of the Supervisory Board, Mr Bachmann works for RB Capital Ltd, Guernsey. RB Capital Ltd, Guernsey, invoiced a total of €813 thousand for brokerage and consulting services in the previous year.

50. MANAGEMENT BOARD AND SUPERVISORY BOARD

The following were appointed members of the Management Board in the reporting period:

Uwe Stahmer, Management Board Member
(from 1 October 2019)

Business administrator, Bad Zwischenahn, Germany
No other mandates

Guido Decker, Spokesman of the Management Board
(until 30 September 2019)

Diplom-Kaufmann (certified business administrator), Fulda, Germany
No other mandates

Dr Alexander Riedel, Chief Financial Officer (CFO)
Diplom-Wirtschaftsingenieur (certified industrial engineer), Munich, Germany
No other mandates

The following were appointed members of the Supervisory Board in the reporting period:

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

Other mandates:
CANAVERAL HOLDCO LIMITED, London, United Kingdom [2]
MEHLER AG, Fulda, Germany [1]

Fried Möller, Deputy Chairman
Diplom-Kaufmann (certified business administrator), Stadtallendorf, Germany

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

Joachim Coers
(from 3 July 2019)

Nonnenhorn, Germany
No other mandates

Pavlin Kumchev
(until 28 February 2019)
Associate Director of The Carlyle Group, London, United Kingdom

Other mandates:
Project Light Topco Ltd., London, United Kingdom [2]

Uwe Stahmer
(until 30 September 2019)

Business administrator, Bad Zwischenahn, Germany
Management consultant
No other mandates

Roy Bachmann
Diplom-Kaufmann (certified business administrator),
Managing Director of RB Capital Partners LLP,
London, United Kingdom
No other mandates

[1] Membership of domestic supervisory boards required by law.
[2] Membership of similar domestic and foreign supervisory bodies.

Granted contributions

Name	Decker, Guido	Riedel, Alexander, Dr
Function	CEO	CFO
Assumption of office	01/08/2017	01/05/2018
Left office	30/09/2019	n/a

in € thousands	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	255	255	255	296	296	296	312	312	312	208	208	208
Fringe benefits [1] (company car)	12	12	12	16	16	16	11	11	11	7	7	7
Total fixed remuneration	**267**	**267**	**267**	**312**	**312**	**312**	**323**	**323**	**323**	**215**	**215**	**215**
One-year variable remuneration (incl. compensation)	617	617	617	100	100	100	125	0	125	67	67	67
Total variable remuneration (incl. compensation)	**617**	**617**	**617**	**100**	**100**	**100**	**125**	**0**	**125**	**67**	**67**	**67**
Stock option plan	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**924**	**–**	**4,000**
Total remuneration	**884**	**884**	**884**	**412**	**412**	**412**	**448**	**323**	**448**	**1,206**	**282**	**4,282**

Name	Stahmer, Uwe
Function	CEO
Assumption of office	01/10/2019
Left office	n/a

in € thousands	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	105	105	105	n/a	n/a	n/a
Fringe benefits [1] (company car)	1	1	1	n/a	n/a	n/a
Total fixed remuneration	**106**	**106**	**106**	**n/a**	**n/a**	**n/a**
One-year variable remuneration (incl. compensation)	–	–	–	n/a	n/a	n/a
Total variable remuneration (incl. compensation)	**–**	**–**	**–**	**n/a**	**n/a**	**n/a**
Stock option plan	**–**	**–**	**–**	**n/a**	**n/a**	**n/a**
Total remuneration	**106**	**106**	**106**	**n/a**	**n/a**	**n/a**

[1] The D & O insurance represents an additional fringe benefit granted.

Grants received

Name	Decker, Guido	Riedel, Alexander, Dr
Function	CEO	CFO
Assumption of office	01/08/2017	01/05/2018
Left office	30/09/2019	n/a

in € thousands	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	255	255	255	296	296	296	312	312	312	208	208	208
Fringe benefits[1] (company car)	12	12	12	16	16	16	11	11	11	7	7	7
Total fixed remuneration	**267**	**267**	**267**	**312**	**312**	**312**	**323**	**323**	**323**	**215**	**215**	**215**
One-year variable remuneration (incl. compensation)	717	717	717	100	100	100	60	60	60	0	0	0
Total variable remuneration (incl. compensation)	**717**	**717**	**717**	**100**	**100**	**100**	**60**	**60**	**60**	**0**	**0**	**0**
Stock option plan	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0**	**0**	**0**
Total remuneration	**984**	**984**	**984**	**412**	**412**	**412**	**383**	**383**	**383**	**215**	**215**	**215**

Name	Stahmer, Uwe
Function	CEO
Assumption of office	01/10/2019
Left office	n/a

in € thousands	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	105	105	105	n/a	n/a	n/a
Fringe benefits[1] (company car)	1	1	1	n/a	n/a	n/a
Total fixed remuneration	**106**	**106**	**106**	**n/a**	**n/a**	**n/a**
One-year variable remuneration (incl. compensation)	–	–	–	n/a	n/a	n/a
Total variable remuneration (incl. compensation)	**–**	**–**	**–**	**n/a**	**n/a**	**n/a**
Stock option plan	**–**	**–**	**–**	**n/a**	**n/a**	**n/a**
Total remuneration	**106**	**106**	**106**	**n/a**	**n/a**	**n/a**

[1] The D & O insurance represents an additional fringe benefit granted.

KAP AG itself has no employees. No remuneration was paid by KAP AG itself to the Management Board in the year under review. The remuneration for Mr Decker and Dr Riedel is invoiced to KAP AG by Project Diamant Administration GmbH, Frankfurt am Main, Germany.

With the approval of the Supervisory Board and on the basis of the authorisation resolution of the Annual General Meeting on 7 July 2017, Mr Decker, as a member of the Management Board of KAP AG, subscribed for 20,000 shares in return for cash contributions making use of part of the authorised capital for 2017. The new shares were issued to Mr Decker. The capital increase serves the purpose approved by the Annual General Meeting of binding the Management Board to the Company. The entry was made in the commercial register on 29 January 2018. The issue price is €33.92 per new share and is equal to the last official closing price of the Company's shares on 29 November 2017 less a 5% discount. With the approval of the Supervisory Board and on the basis of the authorisation resolution of the Annual General Meeting on 16 April 2018, Dr Riedel, as the CFO of KAP AG, subscribed for 18,045 shares in return for cash contributions making use of part of the authorised capital for 2017. The new shares were issued to Dr Riedel. The capital increase serves the purpose approved by the Annual General Meeting of binding the Management Board to the Company. The entry was made in the commercial register on 27 June 2018. The issue price is €33.25.

Since 2017, KAP AG has maintained a virtual stock option programme with cash settlement in which Mr Decker and Dr Riedel take part. On a one-time basis on the start of his employment on 1 August 2017, Mr Decker was granted 100,000 virtual stock options, which vest over a period of four years. The fair value of the virtual stock options as of the grant date was €924,331. On a one-time basis on the start of his employment on 1 May 2018, Dr Riedel was promised 100,000 virtual stock options as of 1 November 2018, which vest over a period of four years from the start of employment. The fair value of the virtual stock options as of the grant date was €994,306. The programme provides for the beneficiary to receive an entitlement to cash settlement from the Company upon the exercise of the option. The exercise date is 31 July 2021 for Mr Decker and 30 April 2022 for Dr Riedel. The entitlement to cash settlement is equal to the difference between the average share price (Xetra trading, Deutsche Börse AG, Frankfurt am Main) of the last 20 trading days prior to exercising the option and the base value of €30 (Mr Decker) or €33 (Dr Riedel). The entitlement is limited to €40 per option. An adjustment is made for dividend distributions made since the granting of the virtual stock options and any dilution effects in the event of capital increases. Because corporate actions took place between the granting of the virtual stock options and the reporting date, the number of virtual stock options increased to 227,570 (previous year: 232,262), of which 117,147 (previous year: 119,562) are attributable to Mr Decker and 110,423 (previous year: 112,700) to Dr Riedel. As of the reporting date, the remaining term of the options was 19 months (Mr Decker) and 28 months (Dr Riedel). The income affecting the statement of income from the stock option programme in the financial year amounts to €127,398, of which €92,000 is attributable to Mr Decker and €35,398 to Dr Riedel.

Pension obligations include pension obligations for former members of the Management Board amounting to €1,336 thousand (previous year: €1,356 thousand).

The members of the Supervisory Board received total remuneration of €87 thousand (previous year: €28 thousand).

51. INVESTMENTS OF KAP AG IN ACCORDANCE WITH SECTION 313 (2) OF THE GERMAN COMMERCIAL CODE (HGB)

Companies included in the consolidated financial statements	Registered office	Share in capital in %
KAP Precision Components GmbH (formerly GM Tec Industries Holding GmbH)	Fulda	100.00[1]
BEBUSCH Hungaria Müanyagfeldolgozó Kft.	Oroszlány, Hungary	100.00
Gear Motion GmbH	Ehingen, Germany	100.00[1]
Gear Motion Grundstücksverpachtungs GmbH & Co. KG	Ehingen, Germany	100.00[1]
Gear Motion Grundstücksverwaltungs GmbH	Ehingen, Germany	100.00
Minavto OOO	Lahoysk, Belarus	100.00
Präzisionsteile Dresden GmbH & Co. KG	Dresden, Germany	100.00[1]
Präzisionsteile Dresden Verwaltungsgesellschaft mbH	Dresden, Germany	100.00
Heiche Logistics GmbH	Schwaigern, Germany	100.00[1]
Heiche Oberflächentechnik GmbH	Schwaigern, Germany	100.00[1]
Heiche Polska sp. z o.o.	Stanowice, Poland	100.00
KAP Surface Holding GmbH	Fulda, Germany	100.00[1]
Gt Oberflächen GmbH	Heinsdorfergrund, Germany	100.00
Heiche Bayern GmbH (formerly: Heiche Bayern Verwaltungs GmbH)	Hunderdorf, Germany	100.00
Heiche Hungary Real Estate Kft.	Sátoraljaújhely, Hungary	100.00
Heiche Hungary Surface Technologies Kft.	Sátoraljaújhely, Hungary	100.00
Heiche Oberflächentechnik Beteiligungs GmbH	Leisnig, Germany	100.00
Heiche Sachsen GmbH & Co. KG	Leisnig, Germany	100.00[1]
Heiche US Inc. (formerly: KAP US Surface Inc.)	Atlanta, USA	100.00
Metallveredlung Döbeln GmbH	Döbeln, Germany	100.00
KAP Textile Holdings SA Limited	Paarl, South Africa	100.00
UKW Properties (Pty.) Ltd.	Paarl, South Africa	100.00
MEHLER Aktiengesellschaft	Fulda, Germany	100.00[1]
CaPlast Kunststoffverarbeitungs GmbH	Nordkirchen-Capelle, Germany	100.00[1]
Convert Vliesveredlung GmbH	Detmold, Germany	74.00
Convert Vliesveredlung GmbH & Co. KG	Waldfischbach-Burgalben, Germany	74.00
Elbtal Verwaltungs GmbH	Coswig, Germany	100.00
Elbtal Plastics GmbH & Co. KG	Coswig, Germany	100.00[1]
GbR MEHLER AG/DAUN & Cie. AG	Stadtallendorf, Germany	94.00
it-novum GmbH	Fulda, Germany	100.00[1]
it-novum Schweiz GmbH	Zurich, Switzerland	100.00
KAP Beteiligungs Inc.	Martinsville, USA	100.00
MEHLER ENGINEERED PRODUCTS GMBH	Fulda, Germany	100.00[1]

Companies included in the consolidated financial statements	Registered office	Share in capital in %
MEHLER ENGINEERED PRODUCTS INDIA PRIVATE LIMITED	Bangalore, India	100.00
MEHLER ENGINEERED PRODUCTS, INC.	Martinsville, USA	100.00
MEHLER ENGINEERED PRODUCTS s.r.o.	Jilemnice, Czech Republic	100.00
MEHLER ENGINEERED PRODUCTS (Suzhou) Co. Ltd.	Suzhou, China	100.00
MEHLER Engineering und Service GmbH	Fulda, Germany	100.00 [1]
Mehler Grundstücksverwaltungs GmbH	Fulda, Germany	100.00
NOW Contec GmbH	Detmold, Germany	74.00
NOW Contec GmbH & Co. KG	Waldfischbach-Burgalben, Germany	74.00
OLBO & MEHLER Tex GmbH & Co. KG	Fulda, Germany	100.00 [1]
OLBO & MEHLER TEX PORTUGAL LDA.	Famalicão, Portugal	100.00
Olbo & Mehler Tex North America, Inc.	Charlotte, USA	100.00
OLBO & MEHLER Verwaltungs-GmbH	Fulda, Germany	100.00
Riflex Film AB	Ronneby, Sweden	100.00
Safe-Box Self Storage Mönchengladbach GmbH	Mönchengladbach, Germany	33.33 [2]
Steinweg Kunststoffolien GmbH	Castrop-Rauxel, Germany	75.00 [1]
Technolen technický textil s.r.o.	Hlinsko, Czech Republic	100.00

[1] Domestic companies that made use of the provisions of section 264 (3) and section 264b of the German Commercial Code (HGB) on the exemption from the obligation to disclose annual financial statements.
[2] Inclusion and equity.

Companies not included in the consolidated financial statements	Registered office	Share in capital in %
via KAP Textile Holdings SA Limited	Paarl, South Africa	100.00
Rags and Fabrics (Lesotho) (Pty.) Ltd.	Lesotho	100.00
via MEHLER Aktiengesellschaft	Fulda, Germany	100.00
Kammgarnbüro GmbH	Frankfurt am Main, Germany	32.81
Platin 1535. GmbH	Frankfurt am Main, Germany	100.00
Ude technical products GmbH in Insolvenz	Kalefeld, Germany	100.00

52. DECLARATION ON CORPORATE GOVERNANCE

The Company has issued the declaration on corporate governance and published it on its website on https://www.kap.de/en/investor-relations/corporate-governance/corporate-governance-statement. This declaration contains the Declaration of Conformity with the German Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act (AktG).

53. GROUP AUDITOR'S FEES

Total Group auditor's fees calculated for the year:

in € thousands	2019	2018
Audit of financial statements	568	229
Other certification services	–	94
Other consulting services	18	124
	586	**447**

Other certification services mainly relate to audit activities relating to interim financial statements. Other services mainly relate to special analyses.

54. RECOMMENDATION FOR THE ADOPTION OF THE ANNUAL FINANCIAL STATEMENTS AND DISTRIBUTION OF THE RETAINED EARNINGS

The Management Board proposes that the annual financial statements of KAP AG be adopted with retained earnings of €16,037,452.86 calculated in accordance with the requirements of the German Commercial Code (HGB).

In addition, the Annual General Meeting on 22 September 2020 is expected to propose the resolution of the distribution of a dividend from the retained earnings of €0.00 (previous year: €15,520,706.00) and carrying the remaining retained earnings of €16,037,452.86 forward. This equates to a dividend of €0.00 (previous year: €2.00) per no-par-value share.

On the basis of the resolution of the Annual General Meeting, €15,520,706.00 (previous year: €14,055,692.00) was distributed as a dividend in the 2019 financial year. This equates to a dividend of €2.00 (previous year: €2.00) per no-par-value share.

55. DECLARATION BY THE MANAGEMENT BOARD

The consolidated financial statements and the Group management report of KAP AG for the 2019 financial year were approved for publication by resolution of the Management Board on 26 March 2020.

Fulda, 26 March 2020

KAP AG
Management Board

Eckehard Forberich
Spokesman of the Management Board

Dr Alexander Riedel
CFO

INDEPENDENT AUDITOR'S REPORT

TO KAP AG, FULDA

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

AUDIT OPINIONS

We have audited the consolidated financial statements of KAP AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2019 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of KAP AG for the financial year January 1, 2019 to December 31, 2019. In accordance with German legal requirements we have not audited the content of the declaration on corporate governance that is referred to in the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1, 2019 to December 31, 2019, and
- the group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the parts of the aforementioned declaration on corporate governance.

Pursuant to § 322 Abs. 3 S. 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements.

In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2019 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

IMPAIRMENT OF GOODWILL

Related information in the consolidated financial statements and group management report
Regarding the accounting and valuation methods and the assumptions applied hereto, we refer to the "Accounting and valuation methods" in section 5 and the "Intangible assets" in section 7 in the consolidated notes. Information on the course of business and the economic development in the segments can be found in the group management report in the section "Economic report".

Facts and risks of the audit
In the consolidated financial accounts, a total of €35.4 million is disclosed in the balance sheet position "intangible assets". At 17.0% of the non-current assets and 10.2% of the group's total assets these represent a significant item in the balance sheet. As of December 31, 2019, €9.3 million of this amount is allocated to "goodwill".

If indications of a possible impairment of assets arise, the Group carries out a central impairment test as required. In accordance with IAS 36.90, the impairment test of the "goodwill" is carried out annually. This involves comparing the carrying amount at the level of the cash generating unit (CGU) with the recoverable amount of the respective CGU. If the carrying amount is higher than the recoverable amount, an impairment loss is recognized, which is initially allocated to goodwill and then to the other assets of the CGU.

The impairment test within the framework of IAS 36 is characterized by its complexity and several discretionary assumptions at the CGU level. This includes the expected business and earnings performance of the respective CGU for the years underlying the detailed planning period, the assumed long-term growth rates and the discount rate applied thereto.

There is a risk to the financial statements that an impairment existing on the balance sheet date was not recognized and that this results in an overstatement of assets.

Audit procedure and findings
We have assessed the appropriateness of the key assumptions and the calculation method of the Group with the involvement of our valuation specialists. In this context, we discussed the development of business and earnings as well as the assumed long-term growth rates with those responsible for the Group's planning. In addition, we conducted a matching of the Group's planning prepared by the Executive Board and approved by the Supervisory Board. Moreover, we also assessed the consistency of the assumptions with external market assessments. We mainly used economic reports from recognized industrial institutions as our sources.

In order to validate the forecast quality of the Group, we have reconciled the plans from previous years with actual figures. Deviations between planned and actual values were analyzed by us and discussed with those responsible for the Group's planning. We have compared the assumptions and parameters underlying the discount rate, the market risk premium and the beta factor with our own assumptions and publicly available data.

We have verified the mathematical accuracy in the valuation model used by the Group.

Finally, we have assessed the notes to the consolidated financial statements for impairment of goodwill to determine whether they are appropriate.

The calculation method, on which the impairment test of goodwill is based, is appropriate and in accordance with the applicable valuation principles under IAS 36. The assumptions and parameters of the Group, on which the valuation is based, are generally reasonable and the information in the notes is complete.

VALUATION OF INVENTORIES

Related information in the consolidated financial statements and group management report
Regarding the accounting and valuation methods applied hereto, we refer to section 5 "Accounting and valuation principles" and to section 13 "Inventories" in the notes to the consolidated financial accounts.

Facts and risks of the audit
In the consolidated financial statements, a total of €59.9 million is disclosed in the balance sheet item "inventories". These represent a significant proportion of current assets and 17.3% of the Group's total assets.

Due to the series production in large quantities, the quantitative inventory and the correct valuation of inventories are important for business development. The inventories are valued at cost and are subject to regular impairment tests. There is a risk that the provision determined in the periodic impairment test were not taken into account and the inventories are therefore overstated. In addition, there is a risk with inventories that the costs are higher than the net realizable value and that an adjustment to the lower net realizable value has not been made.

Audit procedure and findings
Within the scope of our audit, we have assured ourselves as to the quantity of goods in the major warehouses. Within this framework, we assessed the instructions and procedures for recording and controlling the inventories carried out and took part in selected stock takes ourselves. We carried out test counts based on random samples and compared the results with the Group's counts.

We have assessed the adequacy of the processes in the area of incoming and outgoing goods and the identification of obsolete inventories.

We have verified the periodically performed impairment test as of the balance sheet date of the Group regarding the mathematical accuracy and have reconciled it with the underlying documents on a sample basis. In addition, we assessed the valuation basis and method and, as part of the review of the calculation of manufacturing costs for semi-finished and finished products, we analyzed individual cost components and reconciled them with corresponding bases and critically analyzed changes in unit costs.

The calculation method used to determine the cost is appropriate and in accordance with the applicable valuation principles. Inventories are measured at the lower of cost or net realizable value on the balance sheet date.

REVENUE RECOGNITION

Related information in the consolidated financial statements and group management report
Regarding the accounting and valuation methods applied hereto, we refer to section 5 "Accounting and valuation principles" as well as to section 27 "Revenue from contracts with customers" in the notes to the consolidated financial accounts and to section 46 in the segment reporting.

Facts and risks of the audit
Consolidated revenues during the business year 2019 amounted to €372.8 million. Turnover was generated in the segments **engineered products** of around 40.4%, **flexible films** of around 23.9%, **it/services** of around 5.2%, **precision components** of around 13.3% and **surface technologies** of around 17.2%.

Revenues form an important basis for assessing business development and are therefore the focus of internal and external stakeholders. The sales include series production in the **engineered products, flexible films, precision components** and **surface technologies** segments and the provision of services in the **it/services** segment.

There is a risk that the revenue cut off is not correctly recorded based on the terms of delivery or the progress of the service.

Audit procedure and findings
As part of our audit procedures, we have examined the process of revenue recognition for the various segments with a view to fully and accurately reflecting the transaction flow. We have also assessed the accounting policies used in the consolidated financial statements for the recognition of revenue from the sale of goods and services on the basis of the criteria defined in IFRS 15.

We used samples based on individual business transactions to verify whether the contractually agreed trade terms were considered in the recording of sales and were recorded in the correct fiscal year. In addition, based on customer contracts and external evidence, random checks were carried out to ensure the correct recording of the transfer of products and services according to the progress of performance.

In addition, we obtained third-party confirmations from customers on a random sample basis to track the level of receivables as of the reporting date and the corresponding sales revenues.

Finally, we used analyses to examine the revenue development of customers and markets as well as the sales distribution within the year in order to identify anomalies within revenues.

Revenue was recognized in accordance with the requirements of IFRS 15 and there were no objections regarding the cut off.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises:

- The “Declaration on Corporate Governance pursuant to Sections 289f (4) and 315d HGB” that is referred to in the group management report,
- The “Non-financial Statement pursuant to Section 289b et seq. HGB and Section 315b et seq. HGB”
- The confirmation pursuant to § 297 (2) sentence 4 HGB regarding the consolidated financial statements and the confirmation pursuant to § 315 (1) sentence 5 HGB regarding the group management report.
- The corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code, and
- The remaining parts of the annual report, except for the audited consolidated financial statements and group management report and our opinions.

The supervisory is responsible for the following other information:

- Report of the Supervisory Board for the financial year 2019

The report of the Supervisory Board is expected to be made available to us after the date of this report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an [audit] opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an [audit] opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our [audit] opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Article 10 of the EU Audit Regulation
We were elected as group auditors by the annual general meeting on July 3, 2019. We were engaged by the supervisory board on October 31, 2019. We have been the group auditors of KAP AG since financial year 2019.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to group entities the following services that are disclosed in the consolidated financial statements in other services:

– Agreed-Upon procedures according to ISRS 4400 in connection with the "Compliance Certificate"; as of the calculation date June 30, 2019

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Michael Schaub.

Frankfurt am Main, March 26, 2020

Mazars GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Jörg Maas	Michael Schaub
Wirtschaftsprüfer	Wirtschaftsprüfer

RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable accounting standards for consolidated financial statements, we affirm that the 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 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 fiscal year."

Fulda, 26 March 2020

KAP AG
Management Board

Eckehard Forberich
Member and Spokesman of the
Management Board

Dr Alexander Riedel
CFO

CONTACT/IMPRINT

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CONCEPT/DESIGN

Kirchhoff Consult AG, Hamburg, Germany

Note
This annual report was published on 28 April 2020 and is also available in German and electronically as a PDF (in German and English). In cases of doubt, the German version shall prevail.

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 separate 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 specified.

FINANCIAL CALENDAR

20/05/2020	Publication of the interim report for Q1 2020
27/08/2020	Publication of the interim report for Q2 2020 (2020 six-month financial statements)
22/09/2020	Annual General Meeting
16/11/2020	Publication of the interim report for Q3 2020

Additional dates and any updates to these:
www.kap.de/en/investor-relations/calendar

www.kap.de

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