Engineering Excellence

Annual Report 2020

KEY FIGURES

Selected key figures

		2020	2019	Change (%)
Group[1]				
Revenue	€ millions	338.7	372.8	–9.1
Normalised EBITDA	€ millions	32.5	31.9	1.9
Normalised EBITDA margin	%	9.6	8.6	11.6
Consolidated annual result after taxes	€ millions	–2.7	–14.1	80.9
Earnings per share	€	–0.35	–1.82	80.8
Investments	€ millions	21.6	17.4	24.1
Depreciation and amortisation	€ millions	30.7	46.7	–34.3
Cash flow from operating activities	€ millions	55.2	35.5	55.5
Non-current assets	€ millions	185.2	208.4	–23.2
Current assets	€ millions	112.7	138.3	–25.6
Equity	€ millions	154.4	161.0	–6.6
Equity ratio	%	49.3	46.5	
Non-current liabilities	€ millions	84.0	106.8	–22.8
Current liabilities	€ millions	69.8	78.8	–9.0
Employees		2,736	2,809	2.6
AG				
Net profit for the year	€ millions	–0.9	–5.3	83.0
Total dividend payout[2]	€ millions	5.8	0.0	> 100
Number of shares (31/12)		7,760,353	7,760,353	0.0
Dividend per share[2]	€	0.75	0.00	> 100

[1] Including discontinued operations.
[2] Proposal for the distribution of the retained earnings.

OUR SEGMENTS

ENGINEERED PRODUCTS

		2020	2019	Change (%)
Revenue	€ millions	127.0	150.7	–15.7
Normalised EBITDA	€ millions	4.8	2.4	100.0
EBITDA margin[1]	%	3.8	1.6	> 100
Employees		870	948	–8.2

[1] Normalised EBITDA/revenue.

FLEXIBLE FILMS

		2020	2019	Change (%)
Revenue	€ millions	100.1	89.2	12.2
EBITDA	€ millions	14.8	10.1	46.5
EBITDA margin	%	14.8	11.4	29.8
Employees		321	326	–1.5

SURFACE TECHNOLOGIES

		2020	2019	Change (%)
Revenue	€ millions	53.5	64.1	–16.5
Normalised EBITDA	€ millions	10.2	13.7	–25.5
EBITDA margin[1]	%	19.1	21.4	–10,8
Employees		769	761	1.1

[1] Normalised EBITDA/revenue.

PRECISION COMPONENTS

		2020	2019	Change (%)
Revenue	€ millions	39.6	49.5	–20.0
Normalised EBITDA	€ millions	1.9	3.4	–44.1
EBITDA margin[1]	%	4.8	6.9	–30,4
Employees		617	619	–0.3

[1] Normalised EBITDA/revenue.

IT/SERVICES

		2020	2019	Change (%)
Revenue	€ millions	22.3	23.3	–4.3
Normalised EBITDA	€ millions	4.1	3.0	36.7
EBITDA margin[1]	%	18.4	12.9	45,7
Employees		122	120	1.7

[1] Normalised EBITDA/revenue.

KAP – ENGINEERING EXCELLENCE

We are a mid-sized industrial holding company. 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 midsized 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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FINANCIAL CALENDAR

25/05/2021	Publication of the interim report for Q1 2021
24/09/2021	Publication of the interim report for Q2 2021 (2021 six-month financial statements)
30/09/2021	Annual General Meeting
24/11/2021	Publication of the interim report for Q3 2021

THE MANAGEMENT BOARD

Eckehard Forberich,
Member and Spokesman of the Management Board

– Responsibilities: Strategy, M&A and Personnel
– Member and Spokesman 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
– Associate in investment banking at Deutsche Bank AG

Marten Julius,
CFO

– Responsibilities: Finance, controlling, law, compliance, investor relations and IT
– Member of the Management Board since October 2020

Previous positions:
– CFO of the Infiana Group, a leading manufacturer of plastic films
– Commercial director of SMC Pneumatik GmbH, the German subsidiary of the Japanese SMC Corporation

LETTER TO OUR SHAREHOLDERS

DEAR SHAREHOLDERS,

In the 2020 financial year, significant uncertainty and challenges in connection with the coronavirus pandemic led to a gloomy market environment and a global economic downturn. 2020 was also a challenging year for our Group. The segments particularly influenced by the automotive sector were hit comparatively hard by the impact of the pandemic, particularly as a result of a sharp drop in demand in the second quarter of 2020. It is therefore all the more encouraging for us that we proved our crisis resistance with our diversified investment portfolio and generated revenue of €338.7 million including discontinued operations despite the impact of the pandemic. We are thus only 9% below the previous year's figure of €372.8 million and, in fact, above the forecast we issued in September 2020. Our normalised EBITDA increased by 1.9% to €32.5 million (previous year: €31.9 million) and was also higher than the forecast range of €27 million to €30 million. The 1.0 percentage point increase in our normalised EBITDA margin to 9.6% means we only just underperformed our minimum target return of 10.0% (previous year: 8.6%). We are particularly proud of the fact that we successfully implemented our planned restructuring measures and significantly improved our profitability in these challenging times. We have also optimised our financing structure and reduced net debt even more than in the previous year. The strong free cash flow of €34.2 million reflects the KAP Group's solid financial situation and enables a high level of flexibility for the further implementation of the Group strategy with regard to future growth. We are very satisfied with this resilient performance, which is mainly due to the restructuring measures already implemented and our segments' strong market position in their niche markets. Taking account of the suspension of the dividend last year, the Management Board and Supervisory Board have therefore decided to propose a dividend of €0.75 per share to the Annual General Meeting.

Our segments' business performance was very mixed in the past year. The **engineered products**, **surface technologies** and **precision components** segments, which are particularly involved in the automotive sector, were hit hard by the impact of the COVID-19 pandemic and increased drops in unit sales in the automotive sector, and they performed significantly worse than in the previous year. In the **engineered products** segment, the first successes of the restructuring measures implemented were already evident in a significant improvement in the operating result. The **flexible films** segment also performed very encouragingly and was able to make use of new sales opportunities in the field of medical protective clothing. The **it/services** segment was hardly impacted by the pandemic and continued to grow in line with expectations. The successful sale and planned divestiture of two subsidiaries from our **it/services** segment puts our investment focus on industrial manufacturing companies.

In the past financial year, we already set the initial course towards achieving our medium-term targets. We want to further expand our leading positions in high-growth and high-yield niche markets and become even more profitable. To further develop the segments, in the past financial year we bundled concrete packages of measures in the **Accelerate** strategy programme, which is to be implemented by the end of 2023, taking account of the existing Group strategy. The programme covers six improvement initiatives for the KAP Group: increasing the sales focus, increasing efficiency, securing future prospects, optimising financial leeway, focusing the portfolio and expanding risk management. We will use **Accelerate** to accelerate the restructuring process and transform the KAP Group into a leading and forward-looking industrial holding company with sustainably improved profitability by the end of 2023. The following pages of this Annual Report will present the newly established strategy programme to you in detail.

As of the end of 2021, we will already have reached further important milestones. In the first quarter of 2021, we completed two attractive acquisitions in our **flexible films** segment. The acquisition of AerO Coated Fabrics B.V., a highly specialised extrusion company and manufacturer of thermoplastic composite materials, and the acquisition of all the remaining shares in NOW Contec GmbH significantly strengthened our competencies in the **flexible films** segment. We also increased the KAP Group's financial flexibility through the sale of our commercial property in Fulda in order to be able to make use of additional attractive investment opportunities in the market within the framework of our strategic alignment. In light of the current crisis, we are also increasingly seeing very attractive acquisition opportunities in the market and are carefully reviewing these.

Against the background of the continuing, albeit reduced, uncertainties in connection with the future course of the coronavirus pandemic, we expect a continuing dynamic economic environment for the 2021 financial year. Taking into account our segments' strong market positioning in attractive niche markets, the sale of subsidiaries in the **it/services** segment and the economic growth forecast by the International Monetary Fund, we expect revenue of between €300 and 330 million with an expected normalised EBITDA of between €27 and 33 million for continuing operations. We have not taken any renewed tightening or extension of the previous infection control measures beyond the first half of 2021 into account in this forecast.

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 as part of our **Accelerate** programme.

The entire KAP workforce has especially contributed to the good performance in these challenging times. We want to thank you, our employees, for your enormous dedication, your perseverance and your great flexibility. Our approximately 2,700 employees have shown tireless dedication in this historic crisis. We would also like to thank you, our shareholders, for your loyalty. We are on a very good trajectory to a promising future.

Best regards,

Eckehard Forberich
Member and Spokesman of
the Management Board

Marten Julius
CFO

Accelerate

The KAP Group successfully faced the challenges in the pandemic year of 2020 and used the opportunity to focus the strategic improvement initiatives already introduced in a coordinated strategy programme called "Accelerate".

Vision for the KAP Group

– **Regions:**
Germany is the base for KAP AG and its industrial holdings. We follow our customers' global manufacturing footprints in selected international markets in southern and eastern Europe, Asia and the US.

– **Segments:**
KAP AG operates in a number of industrial segments with various technologies. We focus on small and medium-sized production companies in attractive niche markets. Our unique selling points are based on our development and application expertise, our proximity to customers and our focus on solutions.

– **Customer industries:**
Our SMEs serve customers from the general industrials and automotive sectors in attractive niche markets. Our application and development expertise means we impress in special healthcare or construction technology applications. In the automotive sector, we supply tier 1 and tier 2 customers, e.g. for electric vehicles, convenience applications and corrosion protection for light metal components. Our innovativeness and entrepreneurial thinking ensure our long-term success.

The programme's objectives and key points

In order to achieve the KAP Group's strategic and operating vision by the end of 2023, we have defined concrete packages of measures for our segments. The long-term measures are to be implemented in the next two years and should take full effect in 2023. Accelerate's overarching medium-term objective is to further increase profitability with a target EBITDA of more than 12%.

The **sales focus** has been strengthened for all segments in order to accelerate organic growth in particular. The production of our products should take place with maximum **efficiency** and minimum **use of liquidity**. In the segments, **future prospects** are ensured by highly specialised application developments and investments in existing and new locations. **Focusing the portfolio** means streamlining the site and management structures for the segments and also targeted M&A activities for inorganic growth for them. The KAP Group's overarching **risk management systems** have been expanded in order to manage these complex processes. In addition, the forward-looking ERP and KPI landscape is going to be further developed. A central project management office has been set up for the purpose of management and content support. The KAP Group uses a cloud-based tool that was developed especially for restructuring processes in companies for this. In addition, the KAP Group's governance principles are being further developed in line with the ESG criteria.

The Accelerate strategy programme initiated in 2020 focuses on the following key points:

Increasing sales focus

- Segment-specific, customised development of the sales team
- Structured and quantified sales initiatives or existing and new customers
- Roll-out of sales funnel tools developed in-house for managing enquiries, incoming orders and revenue recognition

Increasing efficiency

- Increasing process and production efficiency through Lean management in selected locations
- Improvement of purchasing performance and use of materials to strengthen competitiveness
- Continuation of the systematic streamlining of administration and other processes

Securing future prospects

- Development and operationalisation of segment-specific technology road maps
- Investments in technologies and production processes in close partnership with selected customers
- Strengthening personnel development measures

Optimising financial leeway

- Sale of the subsidiary in the it/services segment and other relevant non-strategic assets
- Selective sale and leaseback transactions where sensible and profitable and opening up further financial leeway
- Accelerating consistent and efficient working capital management

Focusing the portfolio

- Systematic withdrawal from sites with a permanently low gross profit margin
- Considerable streamlining of existing corporate and holding structures
- Reduction of manager-to-staff ratios through organisational merger of sites

Expanding overarching risk management

- Further development of a forward-looking ERP and KPI landscape for the KAP Group at the same time as connection of relevant local branch applications
- Ongoing development of security and compliance measures
- Development of KAP in line with ESG criteria

engineered products

In this segment, we develop, produce and sell technical fabrics and threads all over the world with chemical and physical conditioning that give our customers' products their characteristic high performance.

Revenue

€127.0 MILLION

Normalised EBITDA

€4.8 MILLION

Employees

870

The restructuring and sales initiatives introduced in 2020 are already having an effect. Despite the decrease in revenue, which was primarily due to the coronavirus, it has already been possible to slightly increase normalised EBITDA year on year. On the sales side, we have promising, multi-year framework and development agreements that prove our customers' renewed confidence. The efficiency increasing measures implemented in the form of streamlining and centralising the purchasing organisation are already leading to improved operating profit performance. In addition, the closure of the plants in Fulda and Jilemnice, Czech Republic, was completed in the fourth quarter in close consultation with customers and the works council. In 2021, the initiatives introduced are better managed and measured through new sales funnel tools that have already been implemented. At the same time, we will bring the planning, calculation and management processes in our sites around the world up to the latest standards.

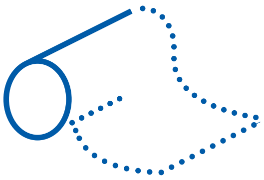
The Lean management programmes already introduced will lead to sustainable efficiency increases at the selected sites. The innovation road map introduced is being systematically developed and reinforced by additional personnel in the various development departments. In connection with this, we are increasing our expertise in developing environmental products in high demand. We realise innovations in connection with high investments in renewing our production facilities, such as our major factory expansion in Hessisch Lichtenau in Germany and the expansion of the latest generation of exhaust air treatment in Hessisch Lichtenau in Germany and in China and India. In Portugal, we are making targeted investments in new value creation processes. These measures that were introduced for this year and next will sustainably strengthen our international market position for technical threads and fabrics. In the medium term, we expect double-digit EBITDA margins again.

Vision for the segment:

– **Products:**
Technical threads and fabrics for special applications

– **Application industries:**
Automotive, general industrial and profitable niche markets

– **Customers & regions:**
Broad and global customer base with target markets in Europe, the US and China



flexible films

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

The sustainable growth in this segment is based on consistent innovation policy and an absolute customer focus. The implementation of the segment strategy was steadily pursued in 2020 and in particular accelerated focus on strategic customer groups in the area of vinyl. Increases in efficiency within the framework of Accelerate occur as a result of Lean projects and continuous improvements, for example in reducing the use of raw materials, in productivity and in product quality. Standardising receivables management, cooperating in procurement and introducing new planning tools help to systematically improve working capital. With the successful introduction of the environmental management system in accordance with EN 14001 and the voluntary commitment within the framework of the UN Global Compact at the segment's business units, the sustainability goals will be consistently implemented until all companies meet these management standards in 2025. At the start of 2021, we reached a decisive strategic milestone by acquiring AerO Coated Fabrics B.V. in the Netherlands. The acquisition leads to an expansion of the technological opportunities and opens up a leading position in heavy composite materials for the segment – particularly thermoplastic elastomer (TPO) tarpaulins, for example for agricultural applications. These target niche markets offer us unique selling points and attractive market opportunities. flexible films is set for an expansion through further M&A activities.

Revenue

€100.1 MILLION

EBITDA

€14.8 MILLION

Employees

321

Vision for the segment:

– **Products:**
Non-PVC and PVC extruded films and thermoplastic composite materials and films

– **Application industries:**
Construction industry and pool construction, automotive, agriculture, green tech and medical products

– **Customers & regions:**
Core market of Europe, selective sales outside of Europe

surface technologies

Vision for the segment:

- **Products:**
  Surface treatment with flexible and extensive process portfolio, specialisation in zinc alloy, passivation and coating
- **Application industries:**
  Automotive, engineering and profitable focus markets
- **Customers & regions:**
  Broad customer base around the world, including in the US, Europe and Eastern Europe

Revenue
€53.5 MILLION

Normalised EBITDA
€10.2 MILLION

Employees
769

In our surface technologies segment, we develop highly specialised surface solutions for metallic materials for our customers and are one of the leading providers in end markets such as the automotive industry or mechanical engineering.

In 2020, the KAP Group invested in a new zinc nickel plant at the Stanowice site in Poland, which started production the same year. It is one of the biggest and most innovative coating plants in Europe. We have thus created the conditions for further expanding our technological lead in this segment. Within the framework of Accelerate, we will significantly further strengthen the proven and effective sales work in surface technologies. By using modern sales funnel tools and business intelligence solutions, we are increasing the transparency of figures and sales at group level and the availability of all relevant key indicators.

The rollout of modern IT systems to all segment sites optimises the management of efficiency and productivity. In addition, the new IT structures enable KPI-based strategic management. Lean management programmes and organisational changes that bundle administrative work are planned for individual sites. The establishment of a new site in Alabama, USA, for our anchor customer Daimler has top priority for us in 2021. We grow with our customers but also through targeted add-on acquisitions that we systematically pursue by constantly screening possible options.

precision components

As one of Europe's high-tech manufacturers of precision components, we develop tailor-made solutions for special electric and electromechanical drives on the basis of plastics or plastic-metal compounds.

Revenue

€39.6 MILLION

Normalised EBITDA

€1.9 MILLION

Employees

617

We also significantly strengthened sales in this segment in the 2020 financial year and have already generated promising customer enquiries. The key to the sales successes was not only intensifying sales activities but an IT-supported increase in the transparency of figures and sales, which will also be constantly further developed in 2021. At all sites, in addition to measures to increase efficiency and productivity, we will also take suitable working capital measures that secure additional liquidity and thus create flexibility. We are also continuing to focus our precision components portfolio – firstly by innovating in the area of toolmaking processes and secondly by massively expanding the production site in Minavto in Belarus, which has enormous cost advantages. The segment's key customers, such as BOSCH, will benefit from these cost advantages as early as from 2022 while the high product and service quality that they are accustomed to from the KAP Group remains the same.

Vision for the segment:

- **Products:**
  Manufacture of top-quality injection moulding and metal compound parts

- **Application industries:**
  Automotive, (industrial) plumbing, medical technology and in particular e-mobility

- **Customers & regions:**
  German and international industrial companies and durable consumer goods manufacturers

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

The 2020 financial year was mainly shaped by the coronavirus pandemic. The lockdowns imposed around the world to contain the pandemic hit the economic environment hard and have led to a recession of a size not seen since the 2008/09 financial crisis. Although the KAP Group also saw decreases in revenues, we have met the challenges of this crisis year. The measures to streamline and focus our product and service portfolio already introduced in the previous year have certainly helped us. However, in addition to the coronavirus, other events have also occupied the KAP Group. In the course of implementing our strategy, we took steps to divest our IT segment and our commercial real estate in Fulda. Together with the Management Board, we will continue to closely monitor the economic environment and take additional steps to realise growth potential in segments with attractive margins and thus create the basis for sustainable and successful corporate development.

For 2021, we expect a continuing difficult environment for the KAP Group. In particular, the impact of the spread of the coronavirus pandemic, which still cannot yet be predicted in concrete terms, may have a negative effect on business development.

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 2020 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 the other members of the Supervisory 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 resolutions.

SUPERVISORY BOARD MEETINGS AND COMMITTEE MEETINGS

In the year under review, there were a total of four regular meetings of the Supervisory Board and four meetings of the audit committee, which were in some cases held virtually due to the extensive restrictions in connection with the COVID-19 pandemic. The members of the Management Board took part in the meetings of the Supervisory Board – unless it was considered appropriate to discuss individual topics such as personnel issues concerning the Management Board without the Management Board's participation – 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 2020 financial year. 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 27 February 2020, we dealt intensively with the preliminary figures for the 2019 financial year and the planning for the 2020 financial year. In addition, current M&A projects and the possible sale of a commercial property belonging to the KAP Group was discussed.

With the auditor present, we dealt extensively with the 2019 annual financial statements and consolidated financial statements, the management report and the Group management report, the separate non-financial Group report and the proposal on the appropriation of profits at the meeting of 2 April 2020. The auditor explained the audit reports including the focuses of the audit. Furthermore, the Management Board reported on the segments' current situation under the influence of the coronavirus crisis. The possible effects of the pandemic on current business and on business development in the next few months and necessary containment measures were discussed in detail.

At the meeting on 17 September 2020, the focus was on detailed reporting on business development and on current projects in every segment of the KAP Group and the segments' strategic alignment within the framework of the new strategy programme. This also included measures and projects for improving operating performance in the individual segments. The Management Board also reported on the current corporate planning and the status of the M&A activities.

On 1 December 2020 we met for another Supervisory Board meeting. The focus at this meeting was not only current business development and the planning for the 2021 financial year but also the status quo of various compliance rules and topics and questions of future insurance cover. In addition, we spoke about the self-evaluation of our Supervisory Board work, which is mandatory under the German Corporate Governance Code and is now to be carried out in the first half of the current financial year with external support.

In addition, there were eight extraordinary meetings of the Supervisory Board that were held by telephone or by way of circulation of written resolutions. At these meetings, in addition to the impact of the coronavirus crisis, the matters discussed or adopted in resolutions included investment and disinvestment plans, personnel and remuneration matters and holding the next general meeting as a virtual general meeting.

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 section A. II. of the German Corporate Governance Code in the version of 16 December 2019. In the 2020 financial year, the audit committee particularly dealt with the 2019 consolidated financial statements and the 2020 consolidated half-year report. Further agenda items included not only risk management and the Company's internal control systems but also various compliance topics and the processes and systems in the areas of controlling and corporate planning. The auditor reported on its audit findings in one of four 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 2020 financial year. No conflicts of interests for individual members of the Supervisory Board came to light in the past financial year.

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 2020 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 the German Stock Corporation Act (AktG) and with International Financial Reporting Standards as adopted by the EU. The auditor did not raise any objections and issued unqualified audit opinions for both sets of financial statements. 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 separate non-financial Group report and the audit reports of the auditor were reviewed and discussed in detail with the Management Board and auditor at the Supervisory Board meeting on 22 April 2021. 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 22 April 2021. 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 22 April 2021. KAP AG's 2020 annual financial statements are thus adopted. We agree with the Management Board's proposal on the appropriation of retained earnings, which recommends distributing a dividend of €0.75 per share and carrying forward the remaining retained earnings.

CHANGES IN THE SUPERVISORY BOARD AND MANAGEMENT BOARD

Vice Chairman of the Supervisory Board Mr Fried Möller resigned from the Supervisory Board for age-related reasons with effect as of 27 November 2020. Mr Möller is an entrepreneur who played a decisive role in shaping and managing KAP for several decades through his work in the Group's Management Board and Supervisory Board since the Group was founded. The Supervisory Board would like to take this opportunity to expressly thank Mr Möller for his great and lasting commitment to the well-being of the Group. Christoph Schoeller was appointed as the new Supervisory Board member by Fulda District Court on 23 December 2020. Mr Schoeller is a proven industry and capital-market expert, who has been closely connected with the Group for several years. His term in office will initially last until the end of the Annual General Meeting that passes the resolution on the formal approval of the Supervisory Board's actions for the 2020 financial year. As of 25 February 2021, Uwe Stahmer was elected Vice Chairman of the Supervisory Board.

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. Mr Forberich is assuming responsibility for the topics of strategy, business development, M&A and human resources.

With effect as of 1 October 2020, we appointed Marten Julius as a new member of the Management Board. Mr Julius has assumed the position of CFO. Mr Julius's areas of responsibility include the topics of finance, controlling, law, investor relations and IT. Mr Julius took over this function from Dr Alexander Riedel, who had asked the Supervisory Board to release him from his position on the Management Board for personal reasons as of 30 September 2020.

THANKS

In the past financial year, in the midst of an unexpected global economic collapse of historic proportions and entirely new challenges for our workforce and business partners due to the pandemic, the KAP Group restructured its Management Board in terms of personnel and achieved important milestones for a successful future. 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 great dedication and their achievements in the challenging 2020 financial year.

Fulda, 22 April 2021

For the Supervisory Board

C. Schmitz

Christian Schmitz
Chairman of the Supervisory Board

CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTIONS 289F AND 315D OF THE GERMAN COMMERCIAL CODE (HGB)

The corporate governance statement pursuant to section 289f and section 315d of the German Commercial Code (HGB) is part of the combined management report. With the following information, the Management Board and Supervisory Board of KAP AG report on corporate governance in accordance with Principle 22 of the German Corporate Governance Code (GCGC) and on the Company's corporate governance in accordance with section 289f and section 315d HGB. The corporate governance of KAP AG as a listed German stock corporation is determined by law by section 161 of the German Stock Corporation Act (AktG) and additionally by the requirements of the German Corporate Governance Code (GCGC) as amended.

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

The Management Board and Supervisory Board of KAP AG have made the Declaration of Conformity pursuant to section 161 of the German Stock Corporation Act (AktG), which was adopted as of 15 April 2021, permanently accessible to shareholders on KAP AG's website on 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 of 16 December 2019, published in the Federal Gazette on 20 March 2020.

I. The Declaration of Conformity pursuant to section 161 AktG adopted on 15 April 2021 applies to the period since the submission of the last declaration of conformity on 24 March 2020. This is replaced in full by the following Declaration of Conformity.

II. KAP AG has complied with the recommendations in the German Corporate Governance Code of the "Government Commission on the German Corporate Governance Code" in the version of 16 December 2019, which was published in the Federal Gazette on 20 March 2020, with the exceptions specified and explained below under sections II.1 to II.6 and will also continue to comply with these.

1. Section B.1 recommends that the Supervisory Board take diversity into account when appointing Management Board members. 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.

2. Sections D.2, D.3 and D.5 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. So far, an audit committee has been formed but a nomination committee has not because, in the Company's judgement, the Supervisory Board, which only has five members, does not need to set up further committees in addition to the audit committee, as decisions can be made quickly and efficiently in this way.

3. Section C.1 sentences 1, 2 and 3 recommend that the Supervisory Board should determine specific objectives regarding its composition and should prepare a profile of skills and expertise for the entire Board. The Supervisory Board should take diversity into account here. The Supervisory Board should also provide information about what the shareholder representatives on the Supervisory Board regard as the appropriate number of independent Supervisory Board members representing shareholders, and the names of these members. An age limit has been specified for members of the Supervisory Board and disclosed in the corporate governance statement. The term of Supervisory Board membership should be disclosed.

   We have so far diverged from these recommendations in some cases 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, as already mentioned above, the selection criteria are the necessary 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 on the Company's website at www.kap.de/en/investor-relations/corporate-governance/executive-board-and-supervisory-board.

4. Section C.1 sentences 2 and 3 recommend that proposals made by the Supervisory Board to the General Meeting should take the Supervisory Board's specific composition objectives into account, while simultaneously aiming at fulfilling the overall profile of required skills and expertise of the entire Board. The implementation status should be published in the corporate governance statement. Since no corresponding targets have yet been set, there were no targets to take into account for the candidate proposals made to the Annual General Meeting in 2018. Nor did any separate presentation have to be provided in the corporate governance statement.

   The election proposals made to the Annual General Meeting in 2021 will take into account the Supervisory Board's specific objectives concerning its composition and simultaneously aim to fulfil the profile of skills and expertise for the entire Board. A progress report will then be published in the corporate governance statement for 2021/22.

5. Due to the vagueness of the term "independence" and the associated potential for conflict, the independent members of the Supervisory Board are not named in the Corporate Governance Report. The German Corporate Governance Code provides interpretive guidance for a determination of independence. The Supervisory Board considers that it has an appropriate number of independent members.

6. Section F.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 mandatory interim financial information be made publicly accessible within 45 days of the end of the reporting period. The Company did not submit the consolidated financial statements and the Group management report for the 2019 financial year or the interim financial information in the 2020 financial year within the recommended deadlines, but within the statutory deadlines. Such statutory deadlines will also be deemed sufficient for the 2021 financial year.

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 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 2020 reporting year, we rolled out our compliance management system to our newly acquired companies and implemented our values and policies. Moreover, a comprehensive external compliance risk analysis, which did not lead to any critical results, was conducted. 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. Additional classroom events are scheduled at some of the companies for the coming year. This mix of e-learning options and classroom events is suited to sustainably anchoring our values and policies with employees.

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 31 March 2020. His office as a member of the Supervisory Board was suspended during this period. He was responsible for strategy, business development, M&A and controlling. Dr Alexander Riedel was responsible for finance, IT, compliance, investor relations and personnel. He stepped down as of 30 September 2020. In March 2020, Mr Eckehard Forberich joined the Management Board and assumed responsibility for the areas of strategy, M&A and personnel. He was joined in October 2020 by Mr Marten Julius, who has responsibility for the areas of finance, controlling, law, compliance, investor relations and IT.

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.

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 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. After the Vice Chairman of the Supervisory Board Mr Fried Möller had resigned in November 2020 due to reaching the age of 74, Mr Christoph Schoeller was appointed to the Supervisory Board in December 2020. As of 25 February 2021, Uwe Stahmer was elected the new Vice Chairman of the Supervisory Board. The rules of procedure are available on 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 starting on page 12 et seq. of the 2020 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 the inclusion of women and men on the Management 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 with section 5.4.2. (1) of the German Corporate Governance Code. No disclosure is made on the reasons for 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. The Supervisory Board has set itself the target of having women occupy at least 30% of its seats and intends to achieve this target by 31 December 2023.

ADDITIONAL DISCLOSURES ON CORPORATE GOVERNANCE

1. GOVERNANCE AND CONTROL STRUCTURE

As an internationally active, 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 co-determination 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. The general meeting is higher than these as the decisive organ of the shareholders. Through it, our shareholders participate in fundamental decisions of the Group. Together, these three organs are equally committed to the interests of shareholders and the well-being of the Group.

2. REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

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.

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 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. In the 2020 financial year, the Annual General Meeting was held virtually within the bounds of legal requirements due to the coronavirus pandemic.

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 62 et seq. of the 2020 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 honesty and integrity towards our customers, suppliers, governments, employees, shareholders and the public.

The Supervisory Board engaged Mazars GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, with registered office in Frankfurt am Main, as the auditor for the 2020 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.

Where there was 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. Two ad hoc disclosures were published in the 2020 financial year.

(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.

Directors' dealings can be found on www.kap.de/en/investor-relations/disclosures/directors-dealings and are 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

Uwe Stahmer, who had been appointed a temporary member of the Management Board since 1 October 2019, stepped down from his position there with the appointment of Eckehard Forberich as the new member effective from 1 March 2020 and resumed his position on the Supervisory Board, which had been put on hold while he served on the Management Board.

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, 15 April 2021

The Management Board The Supervisory Board

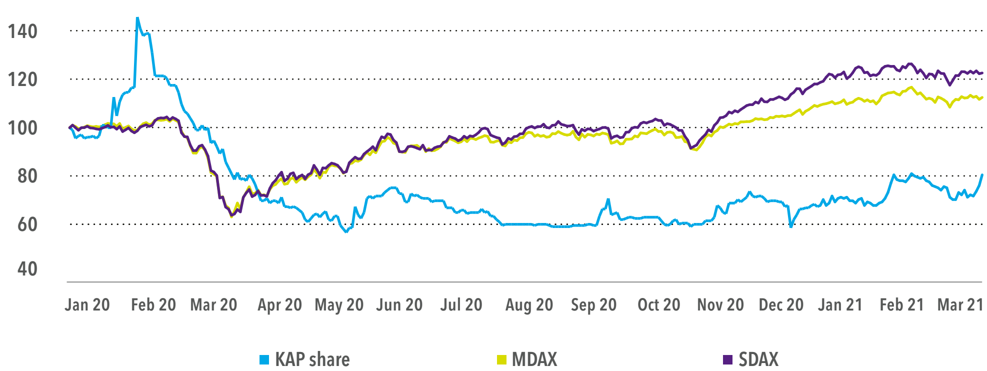
KAP ON THE CAPITAL MARKET

STOCK MARKET YEAR 2020: MARKET AS A WHOLE POSITIVE OVERALL DESPITE COVID-19 PANDEMIC

2020 was a crisis year that will be remembered for a long time to come. At the start of the year, the equity markets initially continued their good performance of the previous year. However, the first wave of COVID-19 and the related economic uncertainties meant global equity markets suffered major losses in value in March 2020. Later in the year, markets recovered again and, looking back at the year as a whole, in fact gained overall. In addition to the pandemic, the US election, the implementation of Brexit and new US trade conflicts with China and Europe adversely impacted capital markets in the major economic areas. The winners in 2020 were mainly shares from the technology and healthcare sectors. The losers particularly included shares from the tourism, aviation and automotive sectors.

German equity markets collapsed in March 2020 as a result of the coronavirus crisis. They recovered in the following months and reached the level of the start of the year in the second half of the year. The three most important German stock indices, the DAX, the MDAX and the SDAX, developed accordingly and reached their annual lows in mid-March and highs at the end of December. As of the end of the year, all indices thus reported positive performance. The DAX rose by 3.5% to 13,718.78 points, the MDAX rose by 8.7% to 30,796.26 points and the SDAX even rose by 18.0% to 14,764.89 points (reference date 30/12/2020).

KAP's share price performance compared to selected indices (in %)



KAP'S SHARE PRICE PERFORMANCE

The KAP share underperformed the market as a whole in 2020. The share reached its peak for the year at a price of €30.00 on 3 February following a significant upward trend. It reached its lowest value on 5 May at a price of €11.70. The KAP share lost a total of 32.3% of its value in 2020 and closed at €13.90 on 30 December. The clear decline is due in particular to uncertainties in connection with the pandemic and the resulting temporary production shutdowns at some Group sites. The KAP Group's market capitalisation was €107.9 million at the end of the year.

The first months of 2021 continue to be shaped by the coronavirus pandemic and its economic impact. However, equity markets reacted to this somewhat more robustly than at the start of the pandemic. This is primarily due to approvals of vaccines for COVID-19 and the vaccination campaigns launched around the world. The KAP share has risen by 18.6% since the start of the year with a closing price of €16.60 on 22 March 2021. The SDAX rose by 3.3% and the MDAX by 2.9% in the same period.

Key data on the KAP share

		2020	2019	2018	2017	2016
Closing price for the year	€	13.90	20.20	32.00	36.00	21.10
High for the year	€	30.00	38.20	42.80	37.39	23.20
Low for the year	€	11.70	19.00	31.60	20.70	18.00
Number of shares (31/12)	in millions	7.8	7.8	7.8	6.6	6.6
Market capitalisation (31/12)	€ millions	107.9	156.8	248.3	238.5	139.8
Earnings per share	€	–0.35	–1.82	1.98	4.68	1.82
Price-to-earnings ratio [1]		–	–	16.16	7.69	11.59
Dividend per share	€	0.75 [2]	0.00	2.00	2.00	2.00
Dividend yield	%	0.0	0.0	6.3	5.6	9.5
Total dividend payout [3]	€ millions	0.0	15.5	14.1	13.2	6.6
Payout ratio	%	0	0	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 2020 financial year. As of 31 December 2020, 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. The free float comprises the rest of the shares and amounts to 29.0%.

The number of shares issued increased to 7,767,563 shares with a calculated proportion of the share capital of €2.60 each due to the subscription of 7,210 new shares that were issued to the new CFO Marten Julius in December 2020. Registration and hence the effectiveness of the capital increase occurred in January 2021.

PROPOSED DIVIDEND OF €0.75 PER SHARE

The Management Board and Supervisory Board's joint proposal to the Annual General Meeting on 30 September 2021 for the appropriation of profit provides for a dividend of €0.75 per share. We are thus adhering to our sustainable dividend policy after having suspended the dividend payment in the previous year due to uncertainties in connection with the COVID-19 pandemic. The amount distributed will be €5.8 million (previous year: €0.00 million) if our shareholders approve our proposal for the appropriation of profit at the Annual General Meeting.

INVESTOR RELATIONS ACTIVITIES INCREASINGLY DIGITAL

In our first full stock market year in the Prime Standard segment of Deutsche Börse, we complied with its high quality standards and the corresponding publicity obligations. The aim of our investor relations activities is to increase awareness and acceptance of KAP AG on the capital market. During the COVID-19 pandemic, sadly no face-to-face events were possible in 2020, which is why the September 2020 Annual General Meeting was held as a virtual event for the first time. In December 2020, we provided information to institutional investors and analysts about our current business situation and were available to them for questions at the digital Munich Capital Market Conference. In the reporting year, we were also able to continue our direct dialogue with institutional and retail investors. In this way, we deepened existing contacts and established new contacts with investors. Additional information and publications relevant to the capital market and the key data on the KAP share are published on our investor relations website: www.kap.de/en/investor-relations.

Group Management Report

SITUATION OF THE GROUP

ORGANISATION AND BUSINESS MODEL

GROUP STRUCTURE

KAP AG is a listed industrial holding company with its registered office in Fulda. As the parent company, KAP AG particularly performs the higher-level functions of strategic corporate development and the further development and creation of the segment strategies based on a buy-and-build approach. In addition, it performs central functions in the areas of investment controlling, corporate governance, investor relations, finance, treasury, legal and administration. The Group's operating business was divided into five segments in the reporting year: **engineered products, flexible films, surface technologies, precision components** and **it/services.** The process for the sale of the it/services segment was initiated in the third quarter of 2020, enabling KAP AG to take advantage of attractive offers by interested parties on the market and increase its investment focus on industrial manufacturing companies. Based on a long-term strategy, our high margin industrial holdings are further expanded and developed into market leaders in attractive niche markets using organic growth and acquisitions.

The operational management and development of the segments are the responsibility of the segment managers. They independently implement the strategy jointly agreed with KAP AG's Management Board and corresponding programmes of measures and investments for their segment. Raw materials and services, production and transport are generally purchased on a decentralised basis by the operating subsidiaries of our five segments. Where possible and appropriate, procurement is centrally coordinated within a segment to realise purchasing synergies where possible. The key procurement markets for our segments are plastic granulates, raw threads made of various primary materials, chemicals, steel and other metals.

Structure of the KAP Group until 31 December 2020

KAP AG

engineered products	flexible films	surface technologies	precision components	it/services [2]
37.5% (previous year: 40.4%) Revenue share [1]	29.6% (previous year: 23.9%) Revenue share [1]	15.8% (previous year: 17.2%) Revenue share [1]	11.7% (previous year: 13.3%) Revenue share [1]	5.6% (previous year: 5.2%) Revenue share [1]

[1] Share of total revenue in the 2020 financial year.
[2] The sale of the segment was initiated in the third quarter of 2020. As a result, it/services is accounted for as a discontinued operation.

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, protective clothing in medical applications 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 electronic or electromechanical drives. Selected areas of application for our high-precision gears include e-bike applications, power steering shafts and gear tips.

In the past financial year, the Management Board and Supervisory Board decided to sell the **it/services** segment during the 2021 financial year. Only the internal data centre and help desk departments will remain in the KAP Group. MEHLER Engineering und Service GmbH, which belongs to this segment, was sold to its existing management in a management buy-out with effect as of 1 January 2021. The sale of the it-novum Group is expected to close in the second quarter of 2021.

CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

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. Uwe Stahmer, who had been appointed a temporary member of the Management Board as of 1 October 2019, stepped down from his position there with the appointment of the new member and resumed his position on the Supervisory Board, which had been put on hold while he served on the Management Board. In addition, the Supervisory Board appointed Marten Julius as the new CFO with effect as of 1 October 2020. He succeeds Dr Alexander Riedel, who asked the Supervisory Board to release him from his position on the Management Board at KAP AG for personal reasons as of 30 September 2020. Vice Chairman of the Supervisory Board Fried Möller resigned from his position as a member of the Company's Supervisory Board for age-related reasons in a letter dated 30 October 2020. Christoph Schoeller was appointed as a member of the Supervisory Board as his successor in December 2020.

LOCATIONS

The KAP Group is represented globally through its operating subsidiaries at a total of 29 sites in 13 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, Sweden and the USA. We are also represented by subsidiaries in Switzerland, Austria and South Africa.

OBJECTIVES AND STRATEGIES

The KAP Group is an industrial holding group with a strategic focus on medium-sized production companies in attractive niche markets. The KAP Group is active in several industrial segments with various technologies and is distinguished by its high quality standards and engineering expertise. To further develop the segments, KAP bundled concrete packages of measures in a strategy programme in the past financial year, taking account of the existing Group strategy. The programme is largely to be implemented by the end of 2022. Our overarching objective is to grow profitably and in the long term. To this end, we rely on a diversified portfolio of SMEs with a still significant source of revenue in the automotive sector, which remains highly important in central Europe. In this sector, we increasingly supply the automotive industry's Tier 1 and Tier 2 customers with pioneering products relating to lightweight construction, corrosion protection and electromobility. Our products and applications from the general industrials area are a second key source of revenue. To reach additional areas of business for broader diversification of our customer structure, we are accelerating the targeted expansion of businesses in attractive and future-oriented application industries, such as from the healthcare and construction industry, agricultural and environmental technology and the field of hygiene.

Our Group has proven to be encouragingly resilient in the coronavirus crisis. To enable us to return to sustainable and profitable growth on the basis of the current, still challenging economic conditions, we have launched a comprehensive programme with the following improvement initiatives:

Increasing sales focus: In the segments, the sales focus on long-term and sustainable growth is to be increased to secure the Group's organic growth. This particularly includes the segment-specific optimised organisation of the sales team and quantified sales initiatives for existing and new customers. To improve sales efficiency and transparency regarding the order situation and sales planning, appropriate sales funnel tools were already further developed in the previous year and have been filled with the first forward-looking projects.

Securing future prospects: The KAP Group is securing future prospects through targeted technology developments and investing in existing and new sites. We are making investments in technologies and production processes in close consultation with selected customers, such as in the expansion of our presence in the USA for a major order from a Tier 1 customer in the surface technologies segment. Furthermore, we are developing and operationalising segment-specific technology road maps.

Increasing efficiency: The existing lean management processes are being further optimised at selected sites to increase process and product efficiency. The purchase processes and use of materials are to be optimised by means of increased management focus and bundling purchase volumes, and, ultimately, better procurement conditions are to be achieved. Additional topics include streamlining site and management structures or withdrawal from sites with permanently low gross profit margins. For example, we closed the loss-making production sites in the engineered products segment in Fulda in 2020 as part of the restructuring process.

Optimising financial leeway: As well as further accelerating efficient working capital management, we are optimising the KAP Group's liquidity. This strategic initiative's other key elements include the sale we initiated of the it/services segment and of other assets that are not strategically relevant, such as the sale of the property at the Fulda site, which should be completed by the end of November 2021 at the latest. Financial leeway is also to be optimised for targeted growth, including by means of M&A.

Optimising and expanding the portfolio: We want to expand our leading market position in these attractive niche markets by means of targeted acquisitions of successful SMEs with growth potential in our core segments. We also continuously review the opportunities and risks in the existing portfolio and will, if necessary, withdraw from sites with permanently low gross profit margins or arrange an organisational merger of sites.

Expanding overarching risk management: The strategy programme also includes the expansion of the overarching risk management systems and the continuous development of the ERP systems, KPI monitoring and KPI management. The overall management of such cross-segment initiatives is handled at Group level by a newly established project management office, which also uses cloud-based KPI and monitoring tools. In addition, the KAP Group's governance principles are being permanently further developed in line with the relevant ESG criteria.

MANAGEMENT SYSTEM

KAP AG's corporate governance is geared to the long-term corporate strategy and the segments' development opportunities and is additionally guided by short- and medium term objectives defined in the strategy programme. 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. In order to manage complex processes, we have developed a central KPI and monitoring approach, which is supported by a central project management office. KAP AG uses a cloud-based tool that was developed especially for restructuring processes in companies for this. The degrees of implementation system used enables constant and reliable assessment of the implementation quality. KAP AG also supports the segments with implementation of the content through joint and technically sound fine-tuning and development of the planned measures into individual activities and in analyses of the market and the competition.

Within the framework of strategic corporate development, KAP AG's Management Board is responsible for overall planning and realisation 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. A 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 (financial result), taxes, depreciation and amortisation (EBITDA), "normalised EBITDA", which has been adjusted for special items, (for its derivation, see page 41), investments in property, plant and equipment 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 33.

RESEARCH AND DEVELOPMENT

Within the KAP Group, the R&D activities are located directly in our segments or segment companies. This ensures direct proximity to customers, and we are thus able to develop 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, often in close cooperation with our customers; the technical development/optimisation of our existing product portfolio and the further development of the production processes and technical procedures used with the aim of improving product characteristics or reducing manufacturing costs. In the 2020 financial year, expenses for research and development in the KAP Group totalled €1.6 million (previous year: €1.7 million). This particularly concerned costs for software development of €0.6 million (previous year: €0.6 million) and costs for tools and sample parts of €0.5 million (previous year: €0.4 million).

ECONOMIC REPORT

MACROECONOMIC AND INDUSTRY-SPECIFIC CONDITIONS

DEVELOPMENT OF THE GLOBAL ECONOMY

The development of the global economy in the 2020 financial year was shaped by the massive impact and great challenges caused by the COVID-19 pandemic. Globally, more than 100 million people have been proven to have been infected with COVID-19, according to John Hopkins University. In response and as a result of the measures to combat the pandemic, global gross domestic product (GDP) shrank by 3.5% and thus performed significantly worse than in the previous year, in which it grew by 2.8%, according to the International Monetary Fund (IMF). The prospects worsened as early as the first quarter of 2020 due to the cyclical developments of the global industrial economy and the impact of international trade conflicts. Overall, the economic uncertainties in connection with the pandemic and the measures introduced to contain the spread of COVID-19 led to a global economic crisis with historic economic downturns. Thanks to the economic stimulus provided by some governments and monetary policy support measures, the pandemic caused less economic damage overall than initially expected. Following a weak first quarter, the global economy in fact saw growth in the summer months of 2020. In the fourth quarter, the second wave of COVID-19 dampened growth again.

Economic environment

Real change in GDP in %	2020	2019
World	–3.5	2.9
Eurozone	–7.2	1.3
Germany	–5.0	0.6
USA	–3.4	2.2
Emerging economies	–2.4	3.6

Sources:
- International Monetary Fund (IMF) – World Economic Outlook Update, 26/01/2021
- Federal Statistical Office: Gross domestic product in Germany –5.0%, 14/01/2021
- ifo Institute – Economic Forecast Winter 2020: "The Coronavirus Strikes Back – Another Lockdown Slows the Economy for a Second Time", 16/12/2020
- BDI – Research Q4 2020, 09/12/2020

ECONOMIC DEVELOPMENT BY REGION

In the **Eurozone,** GDP fell by a total of 7.2% in the 2020 financial year according to data from the Federal Statistical Office (Destatis) (previous year: +1.3%). Gross fixed capital formation fell by 9.7% in the Eurozone according to the ifo Institute's economic forecast in winter 2020. Private consumption fell by 8.0% year-on-year. Government consumption increased by 1.2%. Consumer prices were 0.3% above the previous year's level. In order to ensure price stability and the effectiveness of monetary policy in the Eurozone during the COVID-19 crisis, the European Central Bank (ECB) introduced the Pandemic Emergency Purchase Programme (PEPP) at the end of March 2020. This was a temporary €750 billion purchase programme for public and private sector bonds with a time span for purchases until the end of 2020. The aim of this monetary policy measure was to stabilise the rate of inflation in the Eurozone at below 2%. The average unemployment rate increased by 0.5 percentage points to 8.0% (previous year: 7.5%) as a result of the pandemic in Europe.

The coronavirus crisis also hit the **German** economy hard in 2020. According to the Federal Statistical Office, the percentage decline in GDP for the year as a whole was 5.0% (previous year: +0.6%). After a 10-year growth phase, Germany is in recession for the first time since the financial crisis of 2008/09. Government consumption expenditure increased by 3.4% compared to the previous year, which was partly due to the procurement of additional protective equipment and increased hospital services. Private consumption fell significantly in Germany, decreasing by 6.0% year-on-year. Gross fixed capital formation saw its largest decrease since the financial and economic crisis in 2008/09 at –3.5%. By contrast, construction investment increased by 1.5%. As a result of the lockdown measures due to the coronavirus and the temporarily disrupted global supply chains, the performance of the production sector (excluding construction) decreased by 9.7%, and performance in fact fell by 10.4% in the manufacturing sector. In particular, exports fell sharply with a decrease of 9.9% due to the global weakness of industrial production and investment activity as well as significantly decreased demand in the automotive sector. The number of people in work decreased by around 477,000 or 1.1% to an annual average of 44.8 million. This ends 14 years of increases in employment. The unemployment rate increased to 5.9% (previous year: 4.9%) according to the German Federal Employment Agency.

The spread of the coronavirus slowed **US** economic output almost simultaneously with Europe's, as a result of which the USA, which is the world's largest economy, also experienced significant economic downturns. According to the IMF, GDP fell by 3.4% in 2020.

Emerging markets and developing countries experienced an economic decline of 2.4% in the past year (previous year: +3.6%). Asian emerging markets and developing countries saw a decrease totalling 1.1%. China was the only country in the world to achieve positive economic growth in 2020, at 2.8%. Effective containment measures, accelerated public investment and liquidity assistance from central banks enabled a significant recovery there.

DEVELOPMENT OF IMPORTANT CUSTOMER SECTORS

The KAP Group's segment companies operate in various market niches and mainly produce products, solutions and services for companies from the industrial sector. The data on current developments in these markets is only publicly available to a limited extent due to their particular nature. Some of the segment companies are highly dependent on the automotive sector.

The general economic situation and the development of industrial production are therefore of great significance. According to data from BDI – Bundesverband der Deutschen Industrie e.V., when adjusted for calendar effects, production in the manufacturing sector fell by 8.3% in the third quarter of 2020 compared to the same period of the previous year. The construction industry saw a loss of 0.4%, whereas there was growth of 2.9% in the main construction industry according to BDI. Significant contractions were experienced in the production of consumer goods (–8.1%), intermediate consumption goods (–5.2%) and capital goods (–3.2%). The global automotive industry and its suppliers were hit particularly hard by the COVID-19 pandemic. There were massive decreases in unit sales in the reporting year. The downwards trend in demand, which had already been in place since the second half of 2019, was significantly strengthened by the uncertainties and restrictions associated with the pandemic. Manufacturers and suppliers decreased their production figures accordingly. According to renowned market research company IHS[1], 17.9% fewer vehicles were produced globally in 2020 than in the previous year. In view of the more demanding carbon emissions targets, the proportion of electric drives, for example for battery-powered electric vehicles and hybrid vehicles, continued to increase in overall passenger car production in 2020.

[1] Overview of IHS LMC Monthly Data, 11 November 2020.

BUSINESS PERFORMANCE

GENERAL EXPLANATIONS REGARDING THE CONSOLIDATED GROUP

In accordance with IFRS 5, the subsidiaries sold or intended for sale in the it/services segment, i.e. MEHLER Engineering und Service GmbH and it-novum GmbH, are accounted for as discontinued operations in the consolidated financial statements. However, the sale of the companies does not take effect until the 2021 financial year. MEHLER Engineering und Service GmbH's energy supply business was separated from the company and sold internally in 2020. The business is therefore not part of the discontinued operations. MEHLER Engineering und Service GmbH was sold to its existing management with effect as of 1 January 2021, and the completion of the sale of it-novum GmbH is planned for the second quarter of 2021. Unless specified otherwise, the statements in this Group management report on the KAP Group's business performance, financial performance and cash flows therefore take into account business development including the it/services segment. By contrast, statements on the financial position as of the reporting date take the it/services segment into account as a discontinued operation.

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

The KAP Group's business performed worse overall in the 2020 financial year than in the previous year as a result of the COVID-19 pandemic and its serious impact on the economy and due to the continuing strong drop in demand in the automotive industry. In view of the fact that it was not initially possible to predict the precise impact of the pandemic on the global economy, we were unable to publish a concrete forecast for the 2020 financial year until September 2020. Despite considerable slowdowns in the market and industry-wide slumps in orders, we generated revenue including discontinued operations totalling €338.7 million in the past year, which was only 9.1% lower than the previous year (previous year: €372.8 million). Earnings before interest, taxes, depreciation and amortisation (EBITDA) including discontinued operations totalling €35.2 million were normalised for special items and non-recurring effects from insured losses in 2019, costs resulting from a fire in the US, restructuring and severance payment costs and transaction-related advice fees by an amount totalling €–2.8 million. Normalised EBITDA including discontinued operations increased by 1.9% to €32.5 million despite these corrections (previous year: €31.9 million). With this robust business development and taking account of the negative impact of COVID-19, we are satisfied overall and in fact outperformed the forecast we issued. The normalised EBITDA margin increased by 1.0 percentage points to 9.6% (previous year: 8.6%), meaning our most important key performance indicator is only slightly lower than our target of 10.0%. The KAP Group's resilient performance is mainly due to the restructuring measures already implemented and the segments' diversified positioning in their niche markets. At €22.1 million, our investments in property, plant and equipment were higher than the level as the previous year (previous year: €16.7 million). The consolidated annual result after taxes improved to €–2.7 million (previous year: €–14.1 million).

Revenue from continuing operations fell by 9.4% to €322.7 million (previous year: €356.0 million). Normalised EBITDA from continuing operations was €31.4 million (previous year: €31.7 million) and was thus 1.1% lower than the previous year's level. The corresponding normalised EBITDA margin increased to 9.7% (previous year: 8.9%).

The performance of our segments was mixed in the past financial year and during the pandemic. The forecast for the 2020 financial year published in the 2019 Annual Report did not take account of the coronavirus pandemic's negative impact. Looking back, the **engineered products, surface technologies** and **precision components** segments, which are particularly dependent on the automotive sector, were hit harder by the impact of the COVID-19 pandemic, an intensified fall in demand in the automotive sector and significant decreases in unit sales. The revenue here was significantly below the previous year's level and was below our expectations in the **surface technologies** and **precision components** segments. While normalised EBITDA decreased significantly in the **surface technologies** and **precision components** segments, the first successes of the restructuring measures implemented were already evident in the **engineered products** segment. Normalised EBITDA improved significantly here and was in fact higher than in our plan. In response to the fact that demand in the automotive industry has been decreasing for years, we started an extensive reorganisation of the segment at the start of the financial year and even before the pandemic. This included capacity adjustments and the withdrawal from operating activities that have negative contribution margins, with the aim of increasing the segment's profitability. In addition to the restructuring measures initiated, the course has since been set for the future by beginning the modernisation and expansion of the site in Hessisch Lichtenau, Germany, which is important for the thread division.

By contrast, the **flexible films** and **it/services** segments held their ground at an operational level and benefited from their good market position in the past year. In particular, the **flexible films** segment benefited from new sales opportunities during the pandemic in the area of medical protective clothing, which is why revenue and normalised EBITDA were significantly higher than in the previous year and exceeded our expectations. The **it/services** segment was hardly impacted by the pandemic in the past financial year and the projects could mostly be continued. We saw a slight decrease in revenue in this segment in line with planning due to the absence of a major order. Normalised EBITDA was, however, significantly higher than the previous year's level and above our expectations. The process to sell the **it/services** segment's subsidiaries was initiated in the third quarter of the financial year.

During the financial year, numerous planned investments were postponed and extensive precautions to protect the workforce and curb the further spread of COVID-19 were taken in response to the COVID-19 pandemic. In addition to site-specific hygiene concepts, employees in large parts of the Group worked from home as far as possible. In addition, staff training was conducted on minimising the risk of infection. To date, there have been 137 employees infected with COVID-19 in the KAP Group. Due to the global decrease in demand, measures to cut personnel costs were taken at an early stage. These included temporary shutdowns of production sites in Germany, China, India, Hungary, Poland, Portugal and the USA and reduced working hours at a number of sites in Germany and one site in Sweden.

Forecast/actual comparison

in € millions	2019	2020 forecast[2]	2020 result
Group[1]			
Revenue	372.8	300–330	338.7
Normalised EBITDA	31.9	27–30	32.5
Investments	16.7	Significant increase	21.6
engineered products			
Revenue	150.7	Significant decrease	127.0
Normalised EBITDA	2.4	Slight increase	4.8
Investments[3]	2.9	Significant increase	1.8
flexible films			
Revenue	89.2	Slight increase	100.1
EBITDA	10.1	Slight increase	14.8
Investments[3]	2.4	Significant increase	2.0
surface technologies			
Revenue	64.1	Slight increase	53.5
Normalised EBITDA	13.7	Significant increase	10.2
Investments[4]	7.3	Significant increase	14.9
precision components			
Revenue	49.5	Slight decrease	39.6
Normalised EBITDA	3.4	Stable	1.9
Investments[3]	2.5	Significant increase	2.2
it/services			
Revenue	23.3	Slight decrease	22.3
Normalised EBITDA	3.0	Slight increase	4.1
Investments	1.5	Significant decrease	0.5

[1] Including discontinued operations.
[2] The segments' forecasts published in the 2019 Annual Report did not take account of the impact of the coronavirus pandemic because it was not yet possible to make any concrete prediction of this at the time of publication.
[3] Investments postponed due to uncertainties in connection with the coronavirus pandemic.
[4] Increase caused by fire damage from 2019.

SIGNIFICANT EVENTS

The global COVID-19 pandemic and the associated changes in the markets significantly influenced the KAP Group's business in 2020. Our strategy with a focus on several high-margin market niches meant we were not negatively impacted in all areas. In some business areas, new opportunities in fact opened up as a result of the pandemic. The impairment test conducted at the end of the year in accordance with IAS 36 therefore did not result in any need for impairment.

The KAP Group systematically continued the planned extensive restructuring of the **engineered products** segment for a sustainable improvement in profitability in the reporting year despite the COVID-19 pandemic. The Jilemnice site in the Czech Republic was partially shut down in October 2020 and production at the site in Fulda in Germany was completely shut down in November 2020. The expenses associated with the reorganisation measures, which totalled €6.1 million, affected business development but were normalised.

In October 2020, fire damage occurred at the production site in the USA. The fire occurred at our plant in Spartanburg, South Carolina (Heiche US Surface Technologies (SC) LLC). It was caused by a technical defect following a power failure as a result of a hurricane. The plant was almost completely destroyed by the fire, but no one was hurt. Other Heiche Group plants ensured replacement supply to customers. The insurance situation is currently still undergoing finally assessment. Overall, however, no significant impact on the KAP Group’s revenue or financial performance is currently expected.

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 analytic
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			
	Medical protective clothing			

PERFORMANCE

FINANCIAL PERFORMANCE

Selected key indicators on financial performance [1]

		2020	2019	Change (%)
Revenue	€ millions	338.7	372.8	–9.1
EBITDA	€ millions	35.2	36.2	–2.8
Normalised EBITDA [2]	€ millions	32.5	31.9	1.9
Normalised EBITDA margin [3]	%	9.6	8.6	11.6
Depreciation, amortisation and impairments	€ millions	30.7	46.7	–34.3
Operating result (EBIT)	€ millions	4.5	–10.6	>100
Financial result	€ millions	–7.5	–5.9	–27.1
Earnings before taxes (EBT)	€ millions	–3.0	–16.5	81.8
Consolidated annual result after taxes	€ millions	–2.7	–14.1	80.9
Earnings per share	€	–0.35	–1.82	80.8
Dividend per share	€	0.75	0.00	>100

[1] Including discontinued operations.
[2] See overview of special items and non-recurring effects (page 41).
[3] Normalised EBITDA/revenue.

In the 2020 financial year, the KAP Group's revenue only decreased by 9.1% to €338.7 million despite the impact of COVID-19 (previous year: €372.8 million). Currency effects had a positive impact in the year under review at €0.5 million (previous year: €1.1 million). From a regional perspective, positive impetus came from Asia, while Germany and North America were rather weak. With a revenue share of 39.8% (previous year: 40.6%), Germany is no longer the most important market for the KAP Group. With a share of 41.6% (previous year: 38.8%), revenue in the rest of Europe is now higher than in Germany. The North/South America region now only amounts to 9.6% (previous year: 12.3 %). Revenue in Asia increased to 8.7% (previous year: 7.8%). In total, the foreign share of total revenue thus increased slightly by 0.8 percentage points to 60.2% (previous year: 59.4%).

Revenues by region

in € millions	2020	2019	Change (%)
Germany	134.7	151.3	–11
Rest of Europe	140.8	144.5	–2.6
North/South America	32.4	46.0	–29.6
Asia	29.6	29.0	2.1
Other regions	1.2	2.0	–40.0
Total	338.7	372.8	–9.1

Inventories of finished goods and work in progress decreased significantly by €13.1 million (previous year: decrease of €2.3 million), which was largely due to the consolidation of the sites in the **engineered products** area and improved management in the supply chain. Other own work capitalised was €0.4 million (previous year: €0.5 million). Overall, total performance fell to €325.2 million (previous year: €370.9 million).

Other operating income increased by 0.7% to €29.9 million in the reporting year (previous year: €29.7 million) and includes income from insurance compensation in connection with the fire damage at the Heinsdorfergrund site from 2019, rental income, exchange rate gains and income from the reversal of provisions. Other operating income also includes reversals of impairment losses on property, plant and equipment in the **engineered products** area.

Cost of materials fell significantly by 19.2% to €164.4 million (previous year: €203.8 million) and the ratio of cost of materials to total performance decreased by another 4.4 percentage points to 50.6% (previous year: 55.0%). Among other things, this shows the success of the measures to increase resource efficiency in our segment companies' production process. Personnel expenses fell by 1.5% to €98.9 million in the reporting year (previous year: €100.4 million). The ratio of personnel expenses to total performance was 30.4% and thus 3.3 percentage points higher than the previous year's figure of 27.1%. The increase was due to the impact of the pandemic. For example, it was not possible to reduce personnel expenses to the same extent as the nevertheless considerable decreases in revenue. There was also a significant increase in severance payments compared to the previous year. Other operating expenses decreased by 6.1% to €56.6 million (previous year: €60.2 million). In particular, the costs for maintenance, outgoing freight, packaging material and travel expenses decreased.

Normalised EBITDA increased by 1.9% to €32.5 million (previous year: €31.9 million). At segment level, the **precision components** and **surface technologies** segments saw a decrease in normalised EBITDA. In the **engineered products, flexible films** and **it/services** segments, normalised EBITDA increased year-on-year. Normalised EBITDA eliminates special items and non-recurring effects and thus increases transparency about the Group's operating development and the comparability of individual key indicators over time. In the year under review, the normalisations comprised a net volume totalling €–2.8 million (previous year: €–4.3 million). Without taking account of all special items and non-recurring effects, EBITDA decreased by 2.8% to €35.2 million (previous year: €36.2 million).

Management normalises certain expenses and income items 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 €–2.8 million were normalised within EBITDA. Normalisations in the amount of €–8.3 million relate to the net amount of insurance compensation and expenses in connection with the fire damage at the Heinsdorfergrund site in Germany, the Sátoraljaújhely site in Hungary and the Spartanburg site in South Carolina, USA in the surface technologies segment. For the transparent presentation of the operating results, transaction-related expenses of €2.2 million and severance payment expenses of €6.7 million were normalised. In connection with the restructuring process in the engineered products segment, in addition to the aforementioned severance payments, a further €4.4 million in reversals of impairments of property, plant and equipment was normalised.

Overview of special items and non-recurring effects

in € millions	2020	2019	Change (%)
EBITDA	35.2	36.2	–2.8
Severance payments	6.7	0.6	>100
Reversal of impairment losses on property, plant and equipment in MEP India	–4.4	0.0	>100
Net balance of surface fire damage	–8.3	–7.9	–5.1
GM Tec purchase price adjustment	0	–0.5	–100
Fulda site hail damage	0.5	–0.2	>100
Transaction-related advice fees	2.2	0.6	>100
Compliance results	–0.1	3.1	>–100
Other	0.7	0.0	>100
Normalised EBITDA	32.5	31.9	1.9

In the year under review, depreciation, amortisation and impairments decreased significantly overall, falling by 34.3% to €30.7 million. Scheduled depreciation, amortisation and impairments in the Group decreased by €1.2 million to €28.5 million. The steep fall in depreciation, amortisation and impairments thus primarily related to unscheduled impairments in the 2019 financial year. There were impairments of €2.2 million in 2020 in connection with the fire at our plant in Spartanburg, South Carolina, USA in the surface technologies segment.

Depreciation of assets held under leases was €2.0 million (previous year: €1.9 million).

At €4.5 million, the operating result/EBIT improved significantly in the reporting year compared to the previous year (previous year: €–10.6 million). The financial result deteriorated significantly as a result of exchange rate losses from financing activities (from €–5.9 million to €–7.5 million). The loss before income taxes thus fell to €–3.0 million (previous year: €–16.5 million). Current income taxes amounted to €2.0 million (previous year: €3.3 million). Taking into account deferred tax income from temporary to valuation differences and the tax loss carry-forwards totalling €1.6 million (previous year: €2.4 million), income tax expense totalled €0.4 million (previous year: €1.0 million). Gains/losses from discontinued operations amounted to €0.7 million (previous year: €3.3 million). In addition to gains/losses from the discontinued it/services business, this item also includes the changes from the liability obligations assumed towards the acquirer of the MVS Group.

The consolidated annual result improved from €–14.1 million to €–2.7 million. Earnings per share rose from €–1.82 to €–0.35. The Management Board, together with the Supervisory Board, decided to propose a dividend of €0.75 per share for the 2020 financial year to the Annual General Meeting on 30 September 2021 (previous year: €0.00 per share).

Segment development

engineered products segment

Selected key indicators on development in the engineered products segment

		2020	2019	Change (%)
engineered products				
Revenue	€ millions	127.0	150.7	–15.7
EBITDA	€ millions	2.7	1.5	80.0
Normalisations	€ millions	2.1	0.9	133.3
Normalised EBITDA	€ millions	4.8	2.4	100.0
Normalised EBITDA margin	%	3.8	1.6	137.5
Investments	€ millions	1.8	2.9	–37.9
Employees as of 31 December		870	948	–8.2

The **engineered products** segment was severely affected by the effects of the COVID-19 pandemic in the reporting year. Revenue fell by 15.7% to €127.0 million (previous year: €150.7 million). As a result of the pandemic, the segment was affected by temporary production shutdowns in China, India and the USA. Our customers from the automotive sector in particular were also impacted by temporary plant closures, as a result of which orders were cancelled or postponed. The KAP Group rapidly responded to the pandemic with effective measures, such as using up remaining holiday days and use of working time accounts. Normalised EBITDA doubled to €4.8 million (previous year: €2.4 million). The normalised special items and non-recurring effects, which totalled €2.1 million, particularly comprise severance payment and restructuring costs. These are offset by reversals of impairments on property, plant and equipment reported under other operating income, which also arose in connection with the restructuring that has taken place in this area. At 3.8%, the normalised EBITDA margin was 2.2 percentage points above the previous year's level (previous year: 1.6%).

The investment volume fell by 37.9% to a total of €1.8 million (previous year: €2.9 million). The segment invested the majority of this in the replacement of machinery. From a regional perspective, the focus of investment activities was on sites in Portugal. The number of staff decreased by 8.2% to 870 people as of 31 December 2020 (previous year: 948).

flexible films segment

Selected key indicators on development in the flexible films segment

		2020	2019	Change (%)
flexible films				
Revenue	€ millions	100.1	89.2	12.2
EBITDA	€ millions	14.8	10.1	46.5
Normalisations	€ millions	0.0	0.0	n. m.
Normalised EBITDA	€ millions	14.8	10.1	46.5
Normalised EBITDA margin	%	14.8	11.4	31.0
Investments	€ millions	2.0	2.4	–16.7
Employees as of 31 December		321	326	–1.5

In the **flexible films** segment, the effects of the pandemic were only partially felt at sales level in the reporting year thanks to broad diversification and high flexibility. In the course of the pandemic, the segment used opportunities arising and increased revenue by 12.2% year-on-year to €100.1 million (previous year: €89.2 million). The increase is partly due to the new sales opportunities that arose during the pandemic in the field of protective clothing in medical applications and the increase in unit sales of swimming pool liners. In addition, business in the business areas affected by COVID-19 has recovered faster than expected. EBITDA rose by 46.5% to €14.8 million (previous year: €10.1 million). The EBITDA margin was 14.8% (previous year: 11.4%).

The investment volume decreased by 16.7% compared to the previous year to €2.0 million (previous year: €2.4 million). The number of employees as of 31 December 2020 remained almost stable at 321 (previous year: 326).

surface technologies segment

Selected key indicators on development in the surface technologies segment

		2020	2019	Change (%)
surface technologies				
Revenue	€ millions	53.5	64.1	–16.5
EBITDA	€ millions	18.5	21.6	–14.4
Normalisations	€ millions	–8.3	–7.9	5.1
Normalised EBITDA	€ millions	10.2	13.7	–25.5
Normalised EBITDA margin	%	19.1	21.4	–10.7
Investments	€ millions	14.9	7.3	>100
Employees as of 31 December		769	761	1.1

In the **surface technologies** segment, revenue decreased significantly by 16.5% to €53.5 million (previous year: €64.1 million) due to the further intensification of the drop in demand in the automotive segment as a result of the COVID-19 pandemic. Following weak operating performance in the first half of the year, however, the business recovered more quickly overall in the second half of the year than originally expected. Normalised EBITDA decreased by 25.5% to €10.2 million (previous year: €13.7 million). The result was normalised for non-recurring effects in connection with the fire damage in 2019. These comprised an insurance settlement of €12.6 million, one-off expenses of €2.3 million that arose due to the business interruption as a result of the fire damage in Germany and further income and expenses in connection with the fire damage in the US described below. The normalised EBITDA margin thus decreased by 2.3 percentage points to 19.1% (previous year: 21.4%).

The surface technologies segment suffered fire damage at the Spartanburg site in the USA (Heiche US Surface Technologies (SC) LLC) in October 2020. The plant was almost completely destroyed in the fire. Other Heiche Group plants ensured replacement supply to customers.

Investment volume was more than twice as high than the level of the previous year at €14.9 million (previous year: €7.3 million). The investments primarily concerned the rectification of the fire damage from 2019 and a new zinc nickel plant at the site in Poland. As of 31 December 2020, 769 people were employed in the segment, which was 1.1% more than as of the end of the previous year (previous year: 761).

precision components segment

Selected key indicators on development in the precision components segment

		2020	2019	Change (%)
precision components				
Revenue	€ millions	39.6	49.5	–20.0
EBITDA	€ millions	1.8	2.2	–18.2
Normalisations	€ millions	0.1	1.2	–91.7
Normalised EBITDA	€ millions	1.9	3.4	–44.1
Normalised EBITDA margin	%	4.8	6.9	–30.4
Investments	€ millions	2.2	2.5	–12.0
Employees as of 31 December		617	619	–0.3

The revenue in the **precision components** segment was heavily affected by the COVID-19 pandemic, dropping significantly by 20.0% to €39.6 million (previous year: €49.5 million). In total, more than 90% of deliveries in this segment concerned the automotive sector. Normalised EBITDA thus decreased by 44.1% to €1.9 million (previous year: €3.4 million). The normalisations totalling €0.1 million (previous year: €1.2 million) particularly comprise non-recurring effects in connection with the reversal of provisions and employees' severance payment entitlements. The normalised EBITDA margin fell by 2.1 percentage points to 4.8% (previous year: 6.9%).

The investment volume was €2.2 million (previous year: €2.5 million) and was thus 12.0% below the previous year's level. The focus of the investment activities was replacement investments. The number of employees as of 31 December 2020 remained almost stable and only fell by 0.3% to 617 (previous year: 619).

it/services segment

Selected key indicators on development in the it/services segment

		2020[1]	2019	Change (%)
it/services				
Revenue	€ millions	22.3	23.3	–4.3
EBITDA	€ millions	4.1	3.0	36.7
Normalisations	€ millions	0.0	0.0	n. m.
Normalised EBITDA	€ millions	4.1	3.0	36.7
Normalised EBITDA margin	%	18.4	12.9	42.6
Investments	€ millions	0.5	1.5	–66.7
Employees as of 31 December		122	120	1.7

[1] Including the continued energy supply operations.

In the discontinued **it/services** business, revenue fell by 4.3% to €22.3 million in the reporting year (previous year: €23.3 million), which was primarily due to project delays. Apart from certain delays, the COVID-19 pandemic did not have any significant impact on the business, and it was possible to carry out or continue projects. EBITDA improved by 36.7% to €4.1 million (previous year: €3.0 million). The EBITDA margin improved by 5.5 percentage points to 18.4% (previous year: 12.9%).

The investment volume fell by 66.7% to €0.5 million in the reporting year (previous year: €1.5 million). As of 31 December 2020, the number of employees decreased by 1.7% to 122 (previous year: 120).

The process to sell the it/services segment's subsidiaries was initiated in the third quarter of the 2020 financial year. MEHLER Engineering und Service GmbH was sold to its existing management in a management buy-out with effect as of 1 January 2021. The sale of the it-novum Group is expected to close in the second quarter of 2021.

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 to equity 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 2020 financial year, other financial obligations amounted to €4.6 million (previous year: €4.4 million), of which €0.7 million (previous year: €0.5 million) was accounted for by obligations from leases and €3.2 million (previous year: €3.9 million) by purchase commitments for property, plant and equipment and €0.7 million on purchase commitments for investment properties.

Capital structure and liquidity

Development of net debt

in € millions	2020	2019	Change (%)
Non-current financial liabilities	59.1	78.1	–24.3
+ Current financial liabilities	11.5	15.9	–27.7
Financial liabilities	70.6	94.0	–24.9
– Cash and cash equivalents	16.0	5.1	> 100
Net debt	54.6	88.9	–38.6

Financial liabilities fell by 24.9% to €70.6 million in the reporting year (previous year: €94.0 million). Liabilities to banks decreased by 28.4% to €55.9 million as of the 31 December 2020 reporting date (previous year: €78.1 million). €46.9 million of this (previous year: €64.6 million) was accounted for by liabilities with a remaining term of more than one year and €9.0 million (previous year: €13.5 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 €0.9 million (previous year: €6.9 million) in the US dollar and the Chinese renminbi. The ratio of liabilities to banks to total assets decreased by 4.6 percentage points to 17.8% (previous year: 22.4%).

A key component of the financing is the syndicated loan agreement concluded in 2017 with a term until 2022 and a maximum volume of €124.7 million. The drawdown was €43.7 million as of 31 December 2020 (previous year: €62.5 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 2020, the interest rates we had to pay overall for liabilities to banks were between 1.4% and 4.3% (previous year: 1.25% and 9.25%).

Lease liabilities decreased to €13.9 million (previous year: €15.3 million).

Taking account of the increased cash and cash equivalents of €16.0 million (previous year: €5.1 million), net debt as of the end of the 2020 financial year decreased significantly by 38.6% to €54.6 million (previous year: €88.9 million).

Cash flow and investments

Selected key indicators on cash flows

in € millions	2020	2019	Change (%)
Cash flow from operating activities	55.2	35.5	55.5
Cash flow from investing activities	–21.0	–16.1	–30.4
Cash flow from financing activities	–23.1	–26.0	11.2
Net change in cash and cash equivalents	11.1	–6.6	>100
Effect of changes in foreign exchange rates and consolidated group on cash and cash equivalents	–0.2	0.0	>–100
Cash and cash equivalents at end of period	16.0	5.1	>100

Cash flow from operating activities rose significantly in the 2020 financial year, increasing by 55.5%, which resulted in an increase in cash inflow of €19.6 million to €55.2 million (previous year: €35.5 million). The clear growth largely results from improved working capital management in inventories and the decrease in trade receivables. At the same time, cash flow from operating activities was positively influenced by higher cash inflows from provisions. By contrast, higher income tax payments had a negative impact.

Cash outflow from investing activities increased significantly by €4.9 million to €21.0 million (previous year: €16.1 million). The fact that investments in property, plant and equipment including investment properties increased from €16.7 million to €21.6 million should be taken into account here. Investment was increased in the **surface technologies** segment in particular. Proceeds from the disposal of property, plant and equipment including investment properties amounted to €0.3 million (previous year: €1.3 million). Proceeds from the disposal of financial assets increased significantly, rising €1.0 million year-on-year to €1.1 million (previous year: €0.1 million). Cash inflow from repayments of financial receivables amounted to €0.1 million (previous year: €0.0 million).

Cash outflow from financing activities fell by €2.9 million in the reporting year to €23.1 million (previous year: €26.0 million). This was primarily due to the fact that no dividends were paid to shareholders for the 2019 financial year (previous year: €15.5 million). The higher repayments of financial liabilities, which totalled €52.0 million (previous year: €22.3 million), had a negative impact on cash flow from financing activities, although cash inflow from borrowing increased by €17.0 million to €28.8 million (previous year: €11.8 million).

Cash and cash equivalents amounted to €16.0 million as of 31 December 2020 (previous year: €5.1 million). The free cash flow, as the difference between cash inflow from operating activities and cash outflow for payments for investments in intangible assets, property, plant and equipment including investment properties and financial assets, increased by €14.8 million to €34.2 million (previous year: €19.4 million).

Calculating the free cash flow

in € millions	2020	2019	Change (%)
Cash flow from operating activities	55.2	35.5	55.2
– Payments for investments in intangible assets	0.8	0.8	0.0
+ Proceeds from disposal of property, plant and equipment including investment properties	0.3	1.3	–76.9
– Payments for investments in property, plant and equipment including investment properties	21.6	16.7	29.3
+ Proceeds from the disposal of financial assets	1.1	0.1	>100
Free cash flow	34.2	19.4	76.3

Working capital

Working capital including discontinued operations fell by 28.4% to €68.1 million as of 31 December 2020 (previous year: €95.1 million). The decrease is largely due to improved working capital management in inventories and the decrease in trade receivables as a result of the lower revenue as a consequence of the pandemic and the site closure in Fulda in Germany.

Working capital

in € millions	2020	2019	Change (%)
Inventories	42.8	59.9	–28.5
+ Trade receivables	45.4	59.0	–23.1
– Trade payables	20.1	23.8	–15.6
Total	**68.1**	**95.1**	**–28.4**

FINANCIAL POSITION

At €313.1 million, the KAP Group's total assets as of 31 December 2020 were €33.5 million below the 31 December 2019 level of €346.6 million.

Balance sheet structure – assets

in € millions	2020	2019	Change
Non-current assets	**185.2**	**208.4**	**–23.2**
Intangible assets	27.8	35.4	–7.6
Property, plant and equipment	149.9	161.9	–12.0
Investment properties	2.0	4.4	–2.4
Other financial assets	0.2	1.3	–1.1
Deferred tax assets	5.3	5.4	–0.1
Current assets	**112.7**	**138.3**	**–25.6**
Inventories	42.8	59.9	–17.1
Trade receivables	43.3	59.0	–15.7
Income tax receivables	1.1	2.3	–1.2
Other receivables and assets	9.8	12.1	–2.3
Cash and cash equivalents	15.7	5.1	10.6
Non-current assets held for sale and discontinued operations	**15.2**	**0.0**	**15.2**
Total liabilities and equity	**313.1**	**346.6**	**–33.5**

On the assets side, non-current assets fell by €23.2 million to €185.2 million (previous year: €208.4 million). Intangible assets decreased by €7.6 million to €27.8 million (previous year: €35.4 million). The decrease is particularly due to depreciation and amortisation of €4.5 million in the surface technologies segment and reclassification of the **it/services** segment's assets. Property, plant and equipment fell by €12.0 million to €149.9 million (previous year: €161.9 million). This is due to the comparatively low investments in 2020 and the asset sales in connection with the restructuring of the **engineered products** segment. Additions of assets held under leases under IFRS 16 amounted to €0.6 million in the 2020 financial year (previous year: €17.1 million). Investment properties decreased by €2.4 million to €2.0 million (previous year: €4.4 million). The change results from the reclassification of a commercial property in Fulda, Germany, to the "non-current assets held for sale" item.

Current assets decreased by €25.6 million to €112.7 million (previous year: €138.3 million). This is largely due to a decrease in inventories by €17.1 million to €42.8 million (previous year: €59.9 million) and a decrease in trade receivables by €15.7 million to €43.3 million (previous year: €59.0 million). Cash and cash equivalents increased by €10.6 million to €15.7 million (previous year: €5.1 million).

The non-current assets held for sale concern a commercial property in Fulda, Germany. The decision to sell this was made in the reporting year. The discontinued operations concern the assets from the **it/services**[1] segment, which are also to be sold.

[1] it/services segment excluding the energy supply business.

Balance sheet structure – liabilities and equity

in € millions	2020	2019	Change
Equity	**154.4**	**161.0**	**–6.6**
Subscribed capital	20.2	20.2	0.0
Capital reserve	86.8	86.8	0.0
Reserves	–20.4	–16.4	–4.0
Net result	65.4	68.4	–3.0
Equity attributable to shareholders of KAP AG	**152.1**	**159.0**	**–6.9**
Non-controlling interests	2.3	2.0	0.3
Non-current liabilities	**84.0**	**106.8**	**–22.8**
Provisions for pensions and similar obligations	18.3	19.9	–1.6
Non-current financial liabilities	59.0	78.1	–19.1
Deferred tax liabilities	6.7	8.6	–1.9
Other non-current liabilities	0.0	0.2	–0.2
Current liabilities	**69.8**	**78.8**	**–9.0**
Other provisions	27.1	22.8	4.3
Current financial liabilities	11.5	15.9	–4.4
Trade payables	18.9	23.8	–4.9
Income tax liabilities	5.0	6.6	–1.6
Other liabilities	7.4	9.7	–2.3
Liabilities in connection with discontinued operations	**4.9**	**0**	**4.9**
Total liabilities and equity	**313.1**	**346.6**	**–33.5**

On the liabilities and equity side, equity fell by €6.6 million to €154.4 million (previous year: €161.0 million). The decrease is due to the consolidated net loss for the year (€–2.7 million) and to the currency effects charged directly to equity (€–4.1 million). Non-current liabilities decreased by €22.8 million to €84.0 million (previous year: €106.8 million). Provisions for pensions and similar obligations decreased by €1.6 million to €18.3 million (previous year: €19.9 million). Non-current financial liabilities decreased to €59.0 million due to repayments as a result of the good financial situation (previous year: €78.1 million). Deferred tax liabilities amounted to €6.7 million (previous year: €8.6 million).

Current liabilities decreased by €9.0 million to €69.8 million (previous year: €78.8 million). Particularly as a result of higher provisions for profit-sharing, severance payments, complaints, guarantees and warranties, other provisions increased by €4.3 million to €27.1 million (previous year: €22.8 million). Current financial liabilities decreased by €4.4 million to €11.5 million largely due to the decrease in current account liabilities (previous year: €15.9 million). Trade payables decreased by €4.9 million to €18.9 million (previous year: €23.8 million). Other liabilities decreased by €2.3 million to €7.5 million (previous year: €9.7 million).

The liabilities in connection with discontinued operations relate to the liabilities of the **it/services**[1] segment, which will be part of the planned divestiture.

[1] it/services segment excluding the energy supply business.

NON-FINANCIAL PERFORMANCE INDICATORS

EMPLOYEES

The KAP Group employed a total of 2,736 employees as of 31 December 2020 (previous year: 2,809 employees). The decrease by 73 employees is particularly due to job cuts in the engineered products segment.

In Germany, the number of employees increased by 17 to 1,386 as of 31 December 2020 (previous year: 1,369 employees). In the Rest of Europe region, the KAP Group had 1,114 employees (previous year: 1,197 employees). In the North/South America region, the Group had 97 employees (previous year: 114 employees) and in the Asia region it had 139 employees (previous year: 129 employees). Germany is still the location where the largest proportion of our staff are employed. The trend towards internationalisation of the operating business, which became apparent in previous years, did not continue in 2020. Instead, the proportion of employees in Germany increased by 2.0 percentage points to 50.7% (previous year: 48.7%).

Selected key indicators on employees[1]

	2020	2019	Change (%)
By region			
Germany	1,386	1,369	1.2
Rest of Europe	1,114	1,197	–6.9
North/South America	97	114	–14.9
Asia	139	129	7.8
Total	**2,736**	**2,809**	**–2.6**
By segment			
engineered products	870	948	–8.2
flexible films	321	326	–1.5
surface technologies	769	761	1.1
precision components	617	619	–0.3
it/services	122	120	1.7
Other	**37**	**35**	**5.7**
Total	**2,736**	**2,809**	**–2.6**

[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.

To attract motivated, efficient employees, we draw on a whole bundle of staff recruitment measures. 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 2020, we employed a total of 44 trainees in the Group (previous year: 61). Building 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. Our subsidiaries allocate study and development projects and support Master's dissertations in a range of topics.

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. In Germany alone, we employ people from 29 different countries.

Even though the proportion of women in the Group, especially in our Eastern European locations, represents more than 50% of the total workforce in some cases, 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. One fixed aspect of our health management system includes customised options relating to prevention, treatment and rehabilitation. 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 existing and possible dangerous situations by preventive means based on comprehensive analyses of each individual accident.

In light of the global COVID-19 pandemic, we have continued existing processes and systems for occupational safety. In order to protect employees and curb the further spread of COVID-19, employees in large parts of the Group worked from home as far as possible. In addition, staff training was conducted on minimising the risk of infection. Thanks to these steps rapidly taken, we were able to prevent internal chains of infection as far as possible and avoid bottlenecks as a result of production downtime. To date, there have been 137 employees infected with COVID-19 in the KAP Group.

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 shall 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. Since 2019, earnings before interest, taxes, depreciation and amortisation (EBITDA) has served as a benchmark for the variable remuneration component.

KAP AG maintains share-based payment programmes for the members of the Management Board Mr Forberich and Mr Julius.

In addition to his fixed remuneration, Eckehard Forberich receives an annual bonus, 50% of which is paid in cash and 50% in KAP AG shares. For the 2020 financial year, the annual bonus for Eckehard Forberich is €83,000 and the proportion of this paid in shares is €41,500. For the subsequent calendar years, the size of the annual bonus will depend on specific successes by KAP AG or other performance indicators that are determined by KAP AG's Supervisory Board at its reasonable discretion each year. The target attainment can be between 0% and 200%. 100% target attainment corresponds to a bonus of €100,000. The number of shares is calculated by dividing the equity component by the average unweighted XETRA closing price of the KAP share for the last 20 trading days prior to approval of the annual financial statements of KAP AG for the respective year.

As part of his remuneration, Marten Julius receives an annual bonus, 100% of which is paid in cash. For the subsequent calendar years, the size of the annual bonus will depend on specific successes by KAP AG or other performance indicators that are determined by KAP AG's Supervisory Board at its reasonable discretion each year. The target attainment can be between 0% and 200%. 100% target attainment corresponds to a bonus of €100,000.

In addition, KAP AG maintains a virtual stock programme. Like the annual bonus, the number of virtual shares awarded to the members of the Management Board depends on specific successes by KAP AG or other performance indicators that are determined by KAP AG's Supervisory Board at its reasonable discretion each year. The target attainment can be between 0% and 200%. For Eckehard Forberich, 100% target attainment for the period from 1 March 2020 to 31 December 2020 corresponds to a reference amount of €104,167 and in subsequent calendar years will correspond to a reference amount of €125,000. For Marten Julius, 100% target attainment for the period from 1 October 2020 to 31 December 2020 corresponds to a reference amount of €25,000 and in subsequent calendar years will correspond to a reference amount of €100,000. The virtual shares are to be allotted following approval of the annual financial statements of KAP AG for the respective year. The number of virtual shares is determined by dividing the reference amounts by the average unweighted XETRA closing price of the KAP share. For 2020, this price is calculated over the period from 1 March to 31 December 2020 for Eckehard Forberich and over the period from 1 October to 31 December 2020 for Marten Julius. For the following calendar years, the share price will be determined over the calendar year for which the virtual shares have been allotted.

The vesting period for the virtual shares is four years after allotment. After the end of the waiting period, a cash settlement is made for each virtual share in the amount of the average unweighted XETRA closing price of the KAP share for the last 30 trading days before the end of the waiting period, which closing price is adjusted for dividends and subscription rights. Notwithstanding the above, the cash settlement for Eckehard Forberich for the virtual shares awarded for the period from 1 March 2020 to 31 December 2020 must not be higher than €500,000. For Marten Julius, the cash settlement for the virtual shares awarded for the period from 1 October 2020 to 31 December 2020 must not be higher than €100,000 and the cash settlement for the virtual shares awarded in the subsequent calendar years must not be higher than €400,000. The virtual shares are protected from corporate actions by adjusting the number of virtual shares.

The remuneration expense for share-based payments recognised in the financial year 2020 amounts to €41,500 for Eckehard Forberich. For Marten Julius, no expense for share-based payments was recognised because no virtual shares had yet vested.

Remuneration granted to the Management Board

Name	Forberich, Eckehard	Julius, Marten
Function	Member and Spokesman of the Management Board	CFO
Assumption of office	01/03/2020	01/10/2020
Left office	n/a	n/a

in € thousands	2020	2020 (min.)	2020 (max.)	2019	2019 (min.)	2019 (max.)	2020	2020 (min.)	2020 (max.)	2019	2019 (min.)	2019 (max.)
Fixed remuneration	298	298	298	n/a	n/a	n/a	77	77	77	n/a	n/a	n/a
Fringe benefits	–	–	–	n/a	n/a	n/a	0	0	0	n/a	n/a	n/a
Total fixed remuneration	**298**	**298**	**298**	**n/a**	**n/a**	**n/a**	**77**	**77**	**77**	**n/a**	**n/a**	**n/a**
One-year variable remuneration	42	0	167	n/a	n/a	n/a	50	0	50	n/a	n/a	n/a
Total variable remuneration	**42**	**0**	**167**	**n/a**	**n/a**	**n/a**	**50**	**0**	**50**	**n/a**	**n/a**	**n/a**
Share-based payment	**41**	**0**	**417**	**n/a**	**n/a**	**n/a**	**0**	**0**	**100**	**n/a**	**n/a**	**n/a**
Total remuneration	**381**	**298**	**882**	**n/a**	**n/a**	**n/a**	**127**	**77**	**227**	**n/a**	**n/a**	**n/a**

Name	Riedel, Alexander, Dr	Stahmer, Uwe	Decker, Guido
Function	CFO	Member of the Management Board	Member and Spokesman of the Management Board
Assumption of office	01/05/2018	01/10/2019	01/08/2017
Left office	30/09/2020	28/02/2020	30/09/2019

in € thousands	2020	2019	2020	2019	2020	2019
Fixed remuneration	234	312	60	105	–	255
Fringe benefits	9	11	1	1	–	12
Total fixed remuneration	**243**	**323**	**61**	**106**	**–**	**267**
One-year variable remuneration (incl. compensation)	325	125	–	–	–	617
Total variable remuneration (incl. compensation)	**325**	**125**	**–**	**–**	**–**	**617**
Stock Option Plan	**–**	**–**	**–**	**–**	**–**	**–**
Total remuneration	**568**	**448**	**61**	**106**	**–**	**884**

Remuneration received by the Management Board

Name	Forberich, Eckehard	Julius, Marten
Function	Member and Spokesman of the Management Board	CFO
Assumption of office	01/03/2020	01/10/2020
Left office	n/a	n/a

in € thousands	2020	2019
Fixed remuneration	298	n/a
Fringe benefits	–	n/a
Total fixed remuneration	**298**	**n/a**
One-year variable remuneration	–	n/a
Total variable remuneration	**–**	**n/a**
Share-based payment	**0**	**n/a**
Total remuneration	**298**	**n/a**

in € thousands	2020	2019
Fixed remuneration	77	n/a
Fringe benefits	0	n/a
Total fixed remuneration	**77**	**n/a**
One-year variable remuneration	0	n/a
Total variable remuneration	**0**	**n/a**
Share-based payment	**0**	**n/a**
Total remuneration	**77**	**n/a**

Name	Riedel, Alexander, Dr	Stahmer, Uwe	Decker, Guido
Function	CFO	Member of the Management Board	Member and Spokesman of the Management Board
Assumption of office	01/05/2018	01/10/2019	01/08/2017
Left office	30/09/2020	28/02/2020	30/09/2019

in € thousands	2020	2019	2020	2019	2020	2019
Fixed remuneration	234	312	60	105	–	255
Fringe benefits	9	11	1	1	–	12
Total fixed remuneration	**243**	**323**	**61**	**106**	–	**267**
One-year variable remuneration (incl. compensation)	238	60	–	–	–	717
Total variable remuneration (incl. compensation)	**238**	**60**	**–**	**–**	**–**	**–**
Stock Option Plan	**–**	**–**	**–**	**–**	**–**	**–**
Total remuneration	**481**	**383**	**61**	**106**	**–**	**984**

EVENTS AFTER THE BALANCE SHEET DATE

With regard to events after the reporting period, we refer to the information under note 44 "Events after the balance sheet date" in the consolidated financial statements.

FORECAST, OPPORTUNITY AND RISK REPORT

FORECAST REPORT

INTRODUCTION

All information provided in the forecast report relates to the 2021 financial year unless otherwise noted and represents our own estimates and expectations. The forecast presented below takes account of our expectations for the further development of the pandemic on the basis of the information available to us in the first quarter of 2021. The forecast does not take account of any renewed tightening or extension of the existing infection control measures beyond the first half of 2021.

ECONOMIC EXPECTATIONS

Although the global vaccination campaigns at the start of the 2021 financial year raised hopes of a turnaround in the pandemic, new waves of infection and coronavirus variants are creating fresh uncertainties. The International Monetary Fund (IMF) nevertheless expects a rapid recovery in the current financial year, with global economic growth of 5.5%. It expects growth of 4.2% for 2022. Following the significant downturn in the global economy with a decline of 3.5% in 2020, the speed of recovery in the various countries will vary considerably. This will depend on the effectiveness of the political support measures, vulnerability to cross-border transmission effects and structural features. In view of these interrelationships, which are difficult to assess, it cannot be ruled out that current global economic expectations will dampen in the event of a prolonged coronavirus pandemic.

The IMF expects 4.2% growth in gross domestic product (GDP) for the Eurozone for 2021. Assuming that the long-term measures introduced in Europe remain largely unchanged until March, economic activity will only increase from the second quarter of 2021 as part of gradual relaxation of the measures. Following growing vaccination coverage of the population, any infection protection measures still in existence are likely to be almost completely lifted in the third quarter, which would enable a noticeable recovery of the economy. The ifo Institute therefore currently thinks that GDP in Germany will also rise by 3.5% in 2021. Weak economic growth is expected at the start of the year because private consumer spending, in particular, is likely to remain restricted and stagnate at a low level compared to the previous quarter. From the second quarter, relaxations of restrictions are likely to lead to a significant recovery and strong growth in private consumption.

In the US, extensive government support has been announced for 2021, which, together with the availability of vaccines, should boost the economy in the current financial year. The IMF currently expects economic growth of 5.1% in 2021 the US.

For emerging economies, the IMF expects economic growth of 6.3% for the current financial year. Here, the relaxations of the coronavirus-related restrictions are also likely to bring about a significant recovery due to increasing vaccine availability in several emerging economies, although the speed at which the vaccines are introduced will vary significantly between the individual economies due to country-specific factors. Additional lockdown measures during the first and second quarters of 2021 to curb the spread of new virus variants are also likely here. In addition, COVID-19 medicines and vaccines are expected to become more accessible around the world in 2021 to 2022.

OVERVIEW OF ECONOMIC FORECASTS

Economic environment

%	Growth [1] 2020	Growth [1] 2021
World	–3.5	5.5
Eurozone	–7.2	4.2
Germany	–5.0	3.5
USA	–3.4	5.1
Emerging economies	–2.4	6.3

[1] Real gross domestic product (GDP) growth.
Sources:
– International Monetary Fund (IMF) – World Economic Outlook Update, 26 January 2021
– ifo Economic forecast Winter 2020, special edition: "The Coronavirus Strikes Back – Another Lockdown Slows the Economy for a Second Time" (16/12/2020)
– Federal Statistical Office – Gross domestic product down 5.0% in 2020 (14/01/2021)

MAJOR MARKET TRENDS

Our 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, our segments' operating development is impacted by specific dynamic downward trends, such as in the automotive sector or reticence by important sectors of industry to invest. In light of the coronavirus pandemic, for 2021 we expect the economic environment to remain challenging, particularly for our cyclical or automotive-related operations. For the global passenger car market, the German Association of the Automotive Industry (VDA) expect unit sales to grow by 9% to 73.9 million new cars in 2021 following a slump of 15% in 2020. The unit sales volume forecast would thus still be significantly below the pre-coronavirus level, which was already low. In the automotive sector and in other sectors with technical products, additional supply bottlenecks and the restricted availability of semiconductors could threaten growth in 2021. Moreover, the overseas container capacity is currently another limiting factor that might not be resolved until the second half of 2021.

FUTURE DEVELOPMENT OF THE KAP GROUP AND THE SEGMENTS

For the 2021 financial year, we plan to continue consistently implementing our segment strategy. Within our strategy programme, we have defined concrete packages of measures. The overarching cornerstones of the programme include focusing strongly on sales measures, significantly increasing efficiency, securing attractive future prospects for the KAP Group and optimising our liquidity position. We are also endeavouring to focus our portfolio and streamline strategic management. We want to develop our segments accordingly through targeted investments and optimisations. The clear focus until the end of 2023 is increasing profitability. We aim to achieve a target operating margin measured by normalised EBITDA of at least 10% in all segments. 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 as part of our strategy programme. This included closing production sites at which, in particular, cord fabric, soft cords and raw twines were manufactured in the past financial year. Overall, this means we are relinquishing revenue of around €40 million for the 2021 financial year. In addition, we are consistently positioning the already market-ready application of solvent-free and thus environmentally friendly products and processes with our customers. These innovations, together with the high investments in a new factory at the Hessisch Lichtenau site in Germany in 2021 and 2022, will permanently strengthen the international market position for technical threads and fabrics. The anticipated expenses in connection with this are in the single-digit million range and will impact earnings growth in the 2021 financial year accordingly. Due to the ongoing restructuring, we expect slight decreases in segment revenue and a significant increase in normalised EBITDA for the 2021 financial year.

For the **flexible films** segment, we fundamentally expect a continuation of the high demand for our products in the 2021 financial year. However, in 2020 the markets were shaped by very high uncertainty and associated stockpiling, which we do not think will be repeated in this way. The acquisition of the Dutch AerO Holding in the first quarter of 2021 opens up the agricultural application industry in this segment, which offers us attractive market opportunities. Moreover, we are not ruling out further M&A activity for this segment. In summary, due to the positive non-recurring effects in 2020, we expect slight decreases in segment revenue and a slight decrease in normalised EBITDA for the 2021 financial year.

In the **surface technologies** segment, the construction of a new site in Alabama, USA, for our anchor customer Daimler has top priority in 2021. We are budgeting for an investment in the single-digit million range for its construction. We currently expect the new production capacity to be available from 2022 and to have positive effects on the development of the segment's revenue and earnings. In summary, we expect significant increases in segment revenue and a significant rise in normalised EBITDA for the 2021 financial year.

In the **precision components** segment, we are continuing to focus our portfolio – firstly through improvements in the area of toolmaking processes and secondly by expanding the production site in Minavto in Belarus, which has significant cost advantages. This segment's key customers will benefit from these cost advantages from 2022. In addition, we are continuing on the strategic path we have embarked on and want to further reduce the share of revenue that depends on the combustion engine and push ahead with the shift towards electric drive systems. In summary, we expect higher segment revenue and a significant rise and stable normalised EBITDA for the 2021 financial year.

2021 goals[1]

in € millions

Group	Actual 2020	2021 forecast[2]
Revenue	322.7	Slight decrease
Normalised EBITDA	31.4	Slight decrease
Investments[3]	21.1	Significant increase
engineered products		
Revenue	127.0	Significant decrease
Normalised EBITDA	4.8	Slight decrease
Investments[3]	1.8	Significant increase
flexible films		
Revenue	100.1	Slight decrease
Normalised EBITDA	14.8	Slight decrease
Investments[3]	2.0	Significant increase
surface technologies		
Revenue	53.5	Significant increase
Normalised EBITDA	10.2	Significant increase
Investments[3]	14.9	Significant decrease
precision components		
Revenue	39.6	Significant increase
Normalised EBITDA	1.9	Stable
Investments[3]	2.2	Significant increase

[1] The forecast presented takes account of the impact of the coronavirus pandemic, as described in the text section.
[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 ON THE FORECAST OF FINANCIAL PERFORMANCE FOR 2021

Against the background of the continuing, albeit reduced, uncertainties in connection with the future course of the coronavirus pandemic, we expect a dynamic economic environment for the 2021 financial year. Taking into account our segments' very good market positioning in attractive niche markets, the sale of subsidiaries in the it/services segment (2020 EBITDA of €4.1 million) and the year-on-year economic growth forecast by the IMF, we forecast revenue of between €300 million and €330 million for the KAP Group and an expected normalised EBITDA of between €27 million and €33 million.

This forecast does not take any renewed tightening or extension of the existing infection control measures beyond the first half of 2021 into account.

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 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 of 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 a deviation of 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 natural hedging to minimise the risks from planned supply and service transactions.

We only use derivatives and forward exchange transactions for hedging currency risks to a very limited extent. We use forward exchange transactions – where necessary – only in the context of hedging relationships 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. No financial instruments were used in 2020.

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 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	Medium	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, high	↓
Personnel	Medium	Medium	↓
IT/Organisation	Medium	Medium, high	↓
Financial risks			
Liquidity risk	Medium	Medium	↓
Interest rate risk	Low	Low	→
Currency and inflation risk	Low, 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 multiple 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. In light of the coronavirus pandemic, we expect the economic environment to become more volatile than before and remain challenging for an as yet incalculable period of time, particularly for our cyclical or automotive-related operations. We do not expect Brexit to have any particular impact on our segments or segment companies apart from general effects on the economy.

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. In light of the coronavirus pandemic, we expect the economic environment to become more volatile than before and remain challenging for an as yet incalculable period of time, particularly for our cyclical or automotive-related operations.

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 continuously identify further technical possibilities for limiting environmental risks. One action area, for example, is improving the energy efficiency of production facilities. Nevertheless, it cannot be fully ruled out that the Group's operations will lead to environmental damage or modernisation 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 already generated 60.2% 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 2020, no product, service group or single customer generated more than 10% of our consolidated revenue. As a supplier in the automotive sector, we also typically have framework agreements with variable quantity calls, meaning that uncertainties in revenue planning are unavoidable. We handle these uncertainties by means of suitably flexible production planning.

Materials management

Depending on the current economic environment and potential developments in individual commodity markets, the purchase prices for raw materials and supplies, and, in some cases, their sufficient availability, 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. As the global economy improves, bottlenecks must be expected in global supply chains, as can currently be seen in semiconductor lead times and significantly rising high sea container freight rates.

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. We are reliant on single-source suppliers in a small number of cases. We attempt to counter supply risks here through a higher level of inventory management.

In the surface technology segment, there is increased fire risk due to production processes with flammable chemicals. In cooperation with our insurers, we therefore regularly review and optimise our fire-safety policies and systems.

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. For example, we use a cross-site talent development programme for internal management training. In addition, we cooperate with schools, vocational academies and universities and offer a wide range of traineeships and university places as part of a dual work-study programme to cover the need for suitable specialists and managers. Building on our subsidiaries' training programmes, we offer personal incentives such as the financing of apprenticeships to become a master craftsman or technician. 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. We can primarily counter short- or medium-term economic fluctuations and fluctuations in demand 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. This 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. Moreover, our employees are made aware of and trained on cyber risks.

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 2020) 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 possible 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 2020, the KAP Group had cash and cash equivalents of €16.0 million and lines of credit totalling €138 million, of which we have drawn €55.9 million. With the exception of our locations in China, India, Switzerland and South Africa, our subsidiaries are integrated into 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. Where necessary, it is, however, routinely the case that such a breach is solved through negotiation with the banks. In the 2020 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 2020 financial year, we conducted a significant proportion of our business with customers in the US dollar zone, accounting for a 9.6% share of the KAP Group's revenue. We minimise the currency risk of the US dollar against the euro by implementing US dollar cash pooling and through natural hedging. As in previous years, management and reduction through derivatives or other currency hedging transactions was thus only necessary in the 2020 financial year 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. In 2020, we successfully conducted a compliance risk analysis with external support, and we will also continuously actively develop the KAP Group's compliance management system and pre-emptively examine potential risk areas through regular internal audits in the future as well.

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 2020, we recognised provisions totalling €10.2 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 the 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.

Overarching risks

As the coronavirus pandemic unfolds, macroeconomic risks may arise that might lead to renewed declines in global economic growth. These risks may have a negative impact on the KAP Group's revenue and earnings development and may 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 or 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 the 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 particularly lie in the systematic implementation of the segment strategy and our newly developed strategy programme as well as resulting from targeted M&A activities. The strategy programme bundles and coordinates the ongoing and future improvement initiatives, taking account of the still valid segment strategy. 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.

Depending on the future course of the coronavirus pandemic, macroeconomic risks may arise, which, contrary to the currently positive economic forecasts, could lead to stagnation or a further 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 market. If the sales situation in all markets worsens again as a result of the impact of the pandemic, further consequences for revenue and earnings and upstream and downstream processes could emerge; neither the length nor impact of which can be predicted at the current time. KAP AG continues to monitor the situation very carefully in order to take mitigating measures if necessary.

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

CORPORATE GOVERNANCE STATEMENT

The corporate governance statement 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 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 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 2020, 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 2020. Further information can be found in section 47 of the notes (related party transactions) on page 144.

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 any shareholdings they have 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 section 119 (1) 6 and section 179 (1) sentence 1 AktG, the Articles of Association may only be amended by resolution of the 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 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 181,772 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 2020, 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 2020

in € thousands	Note	2020	2019[1]
Revenue	(28)	**322,662**	**356,011**
Change in inventories and other own work capitalised		–13,648	–1,751
Total performance		**309,014**	**354,260**
Other operating income	(29)	29,072	29,200
Cost of materials	(30)	–158,869	–196,882
Personnel expenses	(31)	–90,115	–92,015
Amortisation and impairment of intangible assets and depreciation and impairment property, plant and equipment and investment property	(32)	–29,960	–45,776
Other operating expenses	(33)	–54,961	–58,570
Operating result		**4,181**	**–9,783**
Interest result	(35)	–3,538	–4,648
Other financial result	(36)	–3,922	–1,256
Financial result		**–7,460**	**–5,904**
Earnings from continuing operations before income taxes		**–3,279**	**–15,687**
Income taxes	(37)	–119	–960
Earnings from continuing operations		**–3,398**	**–16,647**
Earnings from discontinued operations after taxes	(18)	714	2,528
Consolidated annual result after taxes		**–2,684**	**–14,119**
Share of the result attributable to non-controlling interests	(38)	277	–74
Consolidated annual result of KAP AG shareholders		**–2,961**	**–14,045**
Undiluted earnings per share (in EUR)	(39)		
Earnings from continuing operations		–0.44	–2.15
Gains/losses from discontinued operations		0.09	0.33
		–0.35	**–1.82**

[1] The segment's income statement (excluding the energy supply business) is retrospectively reported as gains/losses from discontinued operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS

FOR THE PERIOD ENDED 31 DECEMBER 2020

in € thousands	2020	2019
Consolidated result after taxes	**–2,683**	**–14,119**
Unrealised gains (+) and losses (–) from currency translation	–4,080	820
Unrealised gains from the disposal of available-for-sale financial assets	0	0
Items that may be reclassified subsequently to profit or loss	**–4,080**	**820**
Actuarial gains from defined-benefit pension plans	130	–2,609
Deferred taxes on actuarial gains/losses from defined-benefit pension plans	–39	783
Items that will not be reclassified subsequently to profit or loss	**91**	**–1,826**
Other comprehensive income after taxes	**–3,989**	**–1,006**
of which other comprehensive income after taxes attributable to non-controlling interests	2	–7
of which other comprehensive income after taxes attributable to shareholders of KAP AG	–3,991	–999
Total comprehensive income	**–6,672**	**–15,125**
of which total comprehensive income attributable to non-controlling interests	279	–81
of which attributable to shareholders of KAP AG	–6,951	–15,044

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

in € thousands	Note	31/12/2020	31/12/2019
ASSETS			
ASSETS			
Non-current assets			
Intangible assets	(7)	27,840	35,417
Property, plant and equipment	(8)	149,893	161,904
Investment properties	(9)	1,961	4,368
Financial assets accounted for using the equity method	(10)	0	0
Other financial assets	(11)	231	1,296
Deferred tax assets	(12)	5,311	5,388
		185,235	**208,373**
Current assets			
Inventories	(13)	42,822	59,902
Trade receivables	(14)	43,347	58,950
Income tax refund claims	(15)	1,051	2,270
Other receivables and assets	(16)	9,768	12,063
Cash and cash equivalents	(17)	15,694	5,077
		112,682	**138,262**
Non-current assets held for sale and discontinued operations	(18)	**15,153**	**0**
		313,070	**346,635**

in € thousands	Note	31/12/2020	31/12/2019
EQUITY AND LIABILITIES			
EQUITY AND LIABILITIES			
Equity and reserves	(19)		
Subscribed capital		20,177	20,177
Capital reserve		86,840	86,840
Reserves		–20,431	–16,442
Net result		65,446	68,413
Equity attributable to shareholders of KAP AG		**152,032**	**158,988**
Non-controlling interests	(19)	2,296	2,017
		154,328	**161,005**
Non-current liabilities			
Provisions for pensions and similar obligations	(21)	18,280	19,900
Non-current financial liabilities	(22)	59,044	78,143
Deferred tax liabilities	(12)	6,643	8,550
Other non-current liabilities	(23)	0	221
		83,967	**106,813**
Current liabilities			
Other provisions	(24)	27,100	22,799
Current financial liabilities	(22)	11,504	15,930
Trade payables	(25)	18,858	23,774
Income tax liabilities	(26)	4,961	6,600
Other liabilities	(27)	7,456	9,714
		69,879	**78,817**
Liabilities in connection with discontinued operations	(18)	**4,896**	**0**
		313,070	**346,635**

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2020

			Revenue reserves	
in € thousands	Subscribed capital	Capital reserve	Currency differences	Actuarial gains/losses
01/01/2019	**20,177**	**86,840**	**–20,567**	**–5,247**
Consolidated annual result	0	0	0	0
Other comprehensive income before taxes	0	0	827	–2,609
Deferred taxes on other comprehensive income	0	0	0	783
Total comprehensive income	**0**	**0**	**827**	**–1,826**
Inflation adjustment in accordance with IAS 29	0	0	0	0
Capital increase	0	0	0	0
Capital decrease	0	0	0	0
Dividends paid to shareholders	0	0	0	0
Change in consolidation group	0	0	0	0
Other changes	0	0	0	0
31/12/2019	**20,177**	**86,840**	**–19,740**	**–7,073**
01/01/2020	**20,177**	**86,840**	**–19,740**	**–7,073**
Consolidated annual result	0	0	0	0
Other comprehensive income before taxes	0	0	–4,081	130
Deferred taxes on other comprehensive income	0	0	0	–39
Total comprehensive income	**0**	**0**	**–4,081**	**91**
Inflation adjustment in accordance with IAS 29	0	0	0	0
Capital increase	0	0	0	0
Capital decrease	0	0	0	0
Dividends paid to shareholders	0	0	0	0
Change in consolidation group	0	0	0	0
Withdrawals	0	0	0	0
Other changes	0	0	0	0
31/12/2020	**20,177**	**86,840**	**–23,821**	**–6,982**

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.

	Other	Total	Net result	Equity attributable to KAP shareholders	Non-controlling interests	Total equity
	10,455	**–15,359**	**97,992**	**189,650**	**2,400**	**192,050**
	0	0	–14,044	–14,044	–74	–14,118
	0	–1,782	0	–1,782	–7	–1,789
	0	783	0	783	0	783
	0	**–999**	**–14,044**	**–15,043**	**–81**	**–15,124**
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	–15,521	–15,521	0	–15,521
	0	0	0	0	0	0
	–83	–83	–14	–97	–303	–400
	10,372	**–16,441**	**68,413**	**158,989**	**2,016**	**161,005**
	10,372	**–16,441**	**68,413**	**158,989**	**2,016**	**161,005**
	0	0	–2,961	–2,961	277	–2,684
	0	–3,951	0	–3,951	2	–3,949
	0	–39	0	–39	0	–39
	0	**–3,990**	**–2,961**	**–6,951**	**279**	**–6,672**
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	–6	–6	0	–6
	10,372	**–20,431**	**65,446**	**152,032**	**2,296**	**154,328**

CONSOLIDATED STATEMENT OF CASH FLOWS [1]

in € thousands	31/12/2020	31/12/2019
Consolidated annual result after taxes	**–2,684**	**–14,119**
Interest result	3,548	4,657
Income taxes	353	966
Earnings before interest and income taxes	**1,217**	**–8,496**
Depreciation, amortisation and impairment of non-current assets	30,723	46,749
Change in provisions	4,655	–3,391
Other non-cash expenses and income	–1,982	3,676
Gains/losses from the disposal of non-current assets	–251	165
Cash flow from operating activities before changes in assets and liabilities	**34,362**	**38,703**
Changes in inventories, receivables and other assets not attributable to investing and financing activities	31,239	1,123
Change in payables and other liabilities not attributable to investing and financing activities	–5,127	647
Cash flow from operating activities before interest and income taxes	**60,474**	**40,473**
Interest paid and received	–2,945	–3,771
Income taxes paid and received	–2,318	–1,196
Cash flow from operating activities	**55,211**	**35,506**
Proceeds from disposal of property, plant and equipment (including investment property)	270	1,251
Investments in property, plant and equipment (including investment property)	–21,647	–16,676
Investments in intangible assets	–809	–759
Proceeds from the disposal of financial assets	1,131	75
Investments in financial assets	0	–2
Cash inflow from repayments of financial receivables	65	0
Disbursements by granting loans	0	–20

[1] Including the it/services segment.

in € thousands	31/12/2020	31/12/2019
Cash flows from investing activities	**–20,990**	**–16,131**
Proceeds from capital increase	100	0
Dividends paid to shareholders	0	–15,521
Cash inflow from borrowing	28,801	11,771
Disbursements for the repayment of financial liabilities	–52,024	–22,282
Cash flow from financing activities	**–23,123**	**–26,032**
Net change in cash and cash equivalents	11,098	–6,657
Effect of changes in foreign exchange rates and consolidated group and valuation changes on cash and cash equivalents	–211	7
Cash and cash equivalents at beginning of period	5,077	11,727
Cash and cash equivalents at end of period	**15,964**	**5,077**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 2020 FINANCIAL YEAR

1. GENERAL REMARKS

KAP AG or the KAP Group has prepared the consolidated financial statements for the period ended 31 December 2020 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 2020 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 changes in shareholders' equity and the statement of cash flows 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. Assets and liabilities are reported as non-current if they permanently serve business operations or have a term of more than one year.

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. In 2020, the Management Board and Supervisory Board made the decision to sell a segment in 2021. This segment is therefore presented as a discontinued operation. 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 30 German and 20 foreign companies.

Investments in associates are accounted for using the equity method.

Interests in subsidiaries and investments in 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:

	31/12/2019	Additions	Disposals	31/12/2020
Germany	31	–	1	30
Rest of the world	19	1	–	20
Total	**50**	**1**	**1**	**50**

The disposal concerns the sale of the shares in Safe-Box Self Storage Mönchengladbach GmbH, Mönchengladbach, Germany, which were previously accounted for using the equity method, with effect as of 12 November 2020. The addition concerns the newly formed Heiche US Surface Technologies (AL) LLC in Alabama, USA. The company was formed with effect as of 5 November 2020 and will operate the new production site in Alabama, USA in the future.

Deconsolidation proceeds from subsidiaries are disclosed under result from divested assets and liabilities. Discontinued operations are recognised separately under gains/losses from discontinued operations after taxes. 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 or 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	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 49.

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 business combinations. 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.

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

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 interests in subsidiaries that do not result in the loss or acquisition of control are accounted for as equity transactions.

Investments in 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	
	2020	2019 €1 =	31/12/2020	31/12/2019 €1 =
Belarusian rouble	2.7978	2.3397	3.2072	2.3686
Chinese yuan	7.8743	7.7197	8.0093	7.8328
Indian rupee	84.6287	78.7864	89.6896	80.1500
Polish zloty	4.4443	4.2980	4.5566	4.2597
Swedish krona	10.4849	10.5935	10.0250	10.4445
Swiss franc	1.0705	1.1125	1.0811	1.0856
South African rand	18.7857	16.1782	18.0135	15.7645
Czech koruna	26.4626	25.6702	26.2420	25.4070
Turkish lira	8.0622	6.3614	9.1065	6.6803
Hungarian forint	351.3362	325.3602	364.3800	330.6100
US dollar	1.1424	1.1194	1.2275	1.1228

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

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

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

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

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

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

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

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Construction projects or other assets are defined as qualifying assets where at least twelve months are required to prepare them for an 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 term 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 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 of whether there are any indications assets may be impaired. If any such indications exist, the recoverable amount of each individual asset will be estimated unless an asset generates cash inflow that is not largely independent of other assets or other groups of assets (cash-generating units).

Goodwill acquired through business combinations is attributed to the cash-generating unit that derives benefit from the acquisition. Cash-generating units are defined as the groups of companies that operate economically independently of each other within the segments. The allocation is made no later than in the period following the acquisition date. In the reporting period, following the analysis of synergies from the underlying acquisitions of the past, the conversion of the internal reporting system for monitoring and management was taken into account. As part of the restructuring process and the shared use of resources and capacity within the segments, the goodwill previously allocated to the MVD/GTO cash-generating unit amounting to €3,850 thousand has now been allocated to the surface technologies segment. Due to the use of joint sales channels and uniform control, the brand name from the acquisition of the Heiche Group (€3,315 thousand) was allocated to the surface technologies segment for future impairment tests. For similar reasons, the goodwill acquired in the acquisition of the NOW Group (€3,479 thousand) is allocated to the superordinate flexible films segment. Before reallocation of the goodwill, an impairment test was carried out at the level of the old cash-generating unit. No impairment was required. The impairment tests for goodwill and assets will consequently be carried out at segment level from the 2021 financial year.

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. Any reversal of an impairment loss to the newly determined recoverable amount 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, which leads to a steady state, on which the calculation of the perpetuity is based. The plan is based on the general development of the respective markets, the profitability of the business in the past and the forecasts of renowned market research institutions. Uncertainties are handled with sensitivity analyses. For the impairment test of goodwill and assets, renewed tightening or extension of the existing infection control measures beyond the first half of 2021 is not expected and a medium-term recovery is assumed in all segments, leading to a steady state on which the calculation of the perpetuity is based. For the detailed planning period, average annual revenue growth rates of 1.8% (flexible films), 15% (precision components), –1.2% (engineered products), 13.3% (surface technologies) are assumed, and average normalised EBITDA margins of 11.9% (flexible films), 9.7% (precision components), 7.7% (engineered products), and 21.5% (surface technologies) are assumed for the derivation of cash flows.

The cost of capital is calculated as the weighted average cost of equity and borrowing (weighted average cost of capital — WACC). This is calculated using 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.

The cost-of-capital rates were 4.39% for engineered products (previous year: 5.06%), 5.34% for flexible films (previous year: 5.13%), 6.49% for it/services (previous year: 6.31%), 5.07% for precision components (previous year: 5.03%) and 7.19% for surface technologies (previous year: 6.69%). Standardised tax rates of 25% to 30% have been used, depending on which country the cash-generating units belong to. With a growth rate of 0% (previous year: 0%), this results in a pre-tax interest rate of 5.74% for engineered products (previous year: 6.78%), 7.17% for flexible films (previous year: 6.88%), 6.62% for precision components (previous year: 6.75%) and 8.95% for surface technologies (previous year: 8.88%).

For the impairment test of goodwill and assets, sensitivity analyses were conducted and a 10% reduction of future cash flows or a 10% increase in weighted cost of capital were assumed. The sensitivity analyses in the engineered products, flexible films and precision components segments reached the conclusion that there would be no need for impairment. In the event of a reduction of the cash flow by 5.6% and an increase in weighted capital costs by 0.44 percentage points, the recoverable amount of the surface technologies reporting segment would be the same as its carrying amount.

By contrast, the value in use was not calculated in the impairment test of the assets in the it/services segment. Here, the fair value less possible costs to sell was used instead. Because the sale process for this segment is already advanced, independent offers were available as of the date of preparation. No impairment was required.

In the engineered products segment, impairment losses were recognised for the production facilities at the site in India in 2017 due to underutilisation. The site in India plays a significant role in the restructuring of this segment initiated in 2020. Production and purchase processes were pooled and management and monitoring activities were introduced on a cross-site basis, meaning that the assets were allocated to the engineered products cash-generating unit for the purposes of impairment testing. The strengthening and expansion of the site meant that the impairment of the plants was then reversed again (by €4.4 million). The impairment test of the assets did not show any permanent need for impairment.

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 43 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.

Loans are measured at amortised cost in accordance with their classification. After initial recognition at cost, other financial assets are recognised at amortised cost on subsequent reporting dates. 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 current tax assets against current tax liabilities and they relate to income taxes levied by the same tax authority for the same tax subject.

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

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

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

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

Other financial receivables and assets

Unless they are derivative financial instruments, other 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 impairment is adjusted through profit or loss, but at most until the carrying amount corresponds to the amortised cost that would have resulted without impairment.

Income tax receivables and income tax liabilities

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 of carrying amount and fair value less disposal costs. They are reported separately from other assets in the statement of financial position. Liabilities from non-current assets and disposal groups classified as held for sale are shown separately from other liabilities.

Provisions for pensions and similar obligations

Provisions for pensions are based on actuarial assessments at the end of each financial year using the 2018 Heubeck mortality tables. 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
A share-based payment component has been agreed with the Management Board. The share-based payment consists of the issue of shares as part of the annual bonus and the award of virtual shares. The share-based payment is accounted for in accordance with the provisions of IFRS 2. From KAP AG's point of view, only a cash settlement obligation exists in connection with the share-based payment, which is why under IFRS 2.42 the payment is accounted for in accordance with the requirements applying to cash-settled share-based payment transactions. A provision proportionate to the amount of the fair value of the payment obligation is recognised on the respective reporting date and any changes in the fair value are recognised through profit and loss. The fair value is determined using an accepted valuation methodology.

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

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

Revenue recognition

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

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

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

The conclusion of a new contract with customers may result in contract acquisition costs. Since the term of contracts for which the contract acquisition costs are incurred and the corresponding payback period for 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). 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.

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 and the incremental borrowing rate of leases, in impairment tests and purchase price allocations and when recognising provisions for pensions, taxes and risks from business operations. 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. NEW ACCOUNTING STANDARDS

a) Standards/interpretations to be used for the first time in the 2020 financial year:

Standard/interpretation		Mandatory from [1]	Adopted by the European Commission	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
Amendments to IFRS 9, IAS 39 and IFRS 7	Amendments to IFRS 9 Financial Instruments, IAS 39 and IFRS 7: Interest rate benchmark reform	01/01/2020	Yes	None
Amendment to IFRS 3	Amendment to IFRS 3 Business Combinations: Clarifications of the definition and identification of a business operation	01/01/2020	Yes	None
Amendments to IFRS standards	Amendments to References to the Conceptual Framework in IFRS Standards	01/01/2020	Yes	None

[1] For financial years beginning from or after that date. At the time of adoption, reference was made to the date indicated by the EU.

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

Standard/interpretation		Mandatory from [1]	Adopted by the European Commission	Foreseeable effects
Amendments to IFRS 4	Amendments to IFRS 4 Insurance Contracts: Deferral of the first-time application of IFRS 9 by another year to the date of first-time application of IFRS 17 Insurance Contracts (2023)	01/01/2023	Yes	None
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16; support for those preparing financial statements during the transition in connection with the IBOR reform (replacement of one interest rate benchmark with another)	01/01/2021	Yes	None
COVID-19-related amendments to IFRS 16	Amendments to IFRS 16 Leases: The amendment gives lessees an option under which accounting for concessions, such as deferral of rent payments or rent reductions granted in connection with the outbreak of the coronavirus pandemic, can be simplified	01/01/2021	Yes	None

[1] For financial years beginning from or after that date. At the time of adoption, reference was made to the date indicated by the EU.

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

Standard/interpretation		Foreseeable effects
Amendment to IAS 1	Amendment to IAS 1: Presentation of financial statements: Classification of liabilities as current depends on the company's rights as of the reporting date: If the right to settlement of the liability can be deferred by at least twelve months after the end of the reporting period, the liability is classified as non-current	None
IFRS 17/Amendments to IFRS 17	Insurance Contracts	None
Amendments to IAS 37, IFRS 3 and IAS 16	Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets, IFRS 3 Business Combinations and IAS 16 Property, Plant and Equipment: Definition of which costs a company must include when assessing whether a contract will be loss-making; business combinations; including amounts of this nature when calculating acquisition costs is not allowed	None
Annual improvements (2018-2020 cycle)	Annual improvements to IFRS 1, IFRS 9, IAS 41 and IFRS 16	None
Amendments to IFRS 1 including amendments to Practice Statement 2	Amendment to IAS 1 Presentation of Financial Statements: Improvement of accounting policy disclosures and corresponding amendment of the guidance in Practice Statement 2	None
Amendments to IAS 8	IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Clarification of the distinction between changes in accounting policies and accounting estimates	None
Proposed amendments to IFRS 16	Proposed amendments to IFRS 16 Leases: Amendment regarding COVID-19 related-rent concessions after 30 June 2021	None

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FIXED ASSETS

The list of shareholdings is shown under note 49 of these 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 11.

7. 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 €15,061 thousand as of 31 December 2020 (previous year: €19,972 thousand), €1,661 thousand (previous year: €1,993 thousand) relates to the **flexible films** segment, €0 thousand (previous year: €550 thousand) to the **it/services** segment and €13,401 thousand (previous year: €17,429 thousand) to the **surface technologies** segment. The useful lives are three to nine years.

Of the goodwill recognised as of 31 December 2020 amounting to €7,350 thousand (previous year: €9,286 thousand), €3,479 thousand (previous year: €3,479 thousand) is attributable to the cash-generating unit NOW Contec, €0 thousand (previous year: €1,976 thousand) to the cash-generating unit **it/services** (reclassified to discontinued operations) and €3,850 thousand (previous year: €3,850 thousand) to the cash-generating unit GtO/MVD.

The impairment tests conducted as of the end of the year did not reveal any need for impairment.

8. PROPERTY, PLANT AND EQUIPMENT

The impairments of €4,448 thousand recognised on property, plant and equipment of the engineered products segment at the production site in India in 2017 due to underutilisation were reversed in the reporting year due to permanently positive earnings forecasts. Following the restructuring, the site is an important part of the segment.

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.

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

Right-of-use assets	2020	2019
Land and buildings	12,647	14,013
Technical equipment and machinery	108	150
Other equipment, plant and office equipment	975	1,083
Total	**13,730**	**15,246**

Lease liabilities	2020	2019
Current	1,779	1,780
Non-current	12,158	13,566
Total	**13,937**	**15,346**

Additions to the right-of-use assets during the 2020 financial year amounted to €587 thousand (previous year: €736 thousand).

Depreciation of right-of-use assets	2020	2019
Land and buildings	1,439	1,454
Technical equipment and machinery	41	18
Other equipment, plant and office equipment	473	401
Total	**1,953**	**1,873**

Expenses for leases	2020	2019
Interest expenses (recognised in finance costs)	400	436
Expenses in connection with short-term leases (recognised in other operating expenses)	27	304
Expense for leases of low-value assets that are not included in the current leases mentioned above (recognised in other operating expenses)	64	91
Total	**491**	**831**

Total payments for leases amounted to €2,370 thousand (previous year: €2,607 thousand).

Government grants of €3,563 thousand (previous year: €4,578 thousand) were recognised in the 2020 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.

9. INVESTMENT PROPERTIES

The disclosure concerns commercial land and buildings of Mehler Aktiengesellschaft in Flieden, Germany and commercial land of GbR MEHLER AG/DAUN & Cie. AG in Stadtallendorf, Germany. In the reporting year, the commercial land and buildings of Mehler Aktiengesellschaft in Fulda, Germany were reclassified to non-current assets held for sale because, in the reporting year, the Management Board and Supervisory Board decided to sell these.

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:

	2020		2019	
Valuation parameters	Range for commercial properties		Range for commercial properties	
Market rent (€ per m² p.a.)	12.88	27.76	6.94	32.76
Property yield (%)	6.70	7.00	6.70	8.00
Remaining useful life (years)	1.00	15.00	1.00	16.00
Multiplier	0.93	9.28	0.93	9.64

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:

	2020 Range		2019 Range	
	6.50%	8.50%	6.50%	8.50%
Income value (in € thousands)	7,358	6,385	19,787	18,013

10. 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. The shares were sold in November 2020. A gain of €100 thousand was realised through the sale.

11. OTHER FINANCIAL ASSETS

In addition to shares in affiliated companies amounting to €29 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 other loans of €152 thousand (previous year: €189 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 43 on financial instruments.

DEVELOPMENT OF GROUP FIXED ASSETS

FROM 1 JANUARY TO 31 DECEMBER 2020

in € thousands	Acquisition/manufacturing costs						
	01/01/2020	Currency adjustment	Additions	Transfers	Disposals	Reclassification [1]	31/12/2020
Intangible assets							
Software and licences	7,674	–89	447	433	–177	–2,043	6,245
Development costs	202	8	–	–	–	–	210
Brand and brand name	3,431	4	–	–	–	–	3,435
Technology	1,044	–60	–	–	–	–	984
Customer relationships	26,331	–1,197	–	–	–	–1,000	24,134
Other internally generated intangible assets	77	–	–	–	–	–	77
Goodwill	15,859	–994	–	–	–	–1,976	12,889
Advance payments made on intangible assets	41	–	279	–202	–	–	118
	54,659	**–2,328**	**726**	**231**	**–177**	**–5,018**	**48,093**
Property, plant and equipment							
Land and buildings	135,184	–2,519	787	99	–1,549	–17,503	114,499
Technical equipment and machinery	286,568	–6,806	2,679	3,181	–6,822	–1,200	277,600
Other equipment, plant and office equipment	53,649	–550	2,866	504	–2,853	–4,264	49,352
Advance payments and assets under construction	5,398	–565	15,757	–4,421	–272	–86	15,811
	480,799	**–10,440**	**22,089**	**–637**	**–11,496**	**–23,052**	**457,263**
Investment properties	**19,334**	**–**	**145**	**406**	**–**	**–9,847**	**10,038**
Financial assets accounted for using the equity method	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other financial assets							
Shares in affiliated companies	99	–	–	–	–	–	99
Shares in participations	200	–	–	–	–	–	200
Loans to participations	1,249	–	–	–	–1,029	–	220
Other loans	189	–35	–	–	–2	–	152
	1,737	**–35**	**–**	**–**	**–1,031**	**–**	**671**
	556,529	**–12,803**	**22,960**	**–**	**–12,704**	**–37,917**	**516,065**

[1] Reclassification to non-current assets held for sale.

Accumulated depreciation and amortisation							Carrying amounts	
01/01/2020	Currency adjustment	Additions	Reversal of impairment losses	Disposals	Reclassification [1]	31/12/2020	31/12/2020	01/01/2020
5,853	–55	728	–	–137	–1,308	5,081	1,164	1,820
202	9	–	–	–	–	211	–1	–
111	4	3	–	–	–	118	3,317	3,320
143	2	86	–	–	–	231	753	901
6,359	–66	3,380	–	–	–600	9,073	15,061	19,972
–	–	–	–	–	–	–	77	77
6,573	–1,034	–	–	–	–	5,539	7,350	9,286
–	–	–	–	–	–	–	118	41
19,241	**–1,140**	**4,197**	**–**	**–137**	**–1,908**	**20,253**	**27,840**	**35,417**
64,990	–1,128	5,368	–	–1,457	–13,395	54,378	60,121	70,194
216,790	–4,699	16,388	–4,448	–6,071	–1,025	216,935	60,665	69,778
37,056	–349	4,476	–	–2,304	–2,835	36,044	13,308	16,593
58	–2	86	–	–130	–	12	15,799	5,340
318,894	**–6,178**	**26,318**	**–4,448**	**–9,962**	**–17,254**	**307,370**	**149,893**	**161,904**
14,966	**–**	**208**	**–**	**–**	**–7,097**	**8,077**	**1,961**	**4,368**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
71	–1	–	–	–	–	70	29	28
150	–	–	–	–	–	150	50	50
220	–	–	–	–	–	220	–	1,029
–	–	–	–	–	–	–	152	189
441	**–1**	**–**	**–**	**–**	**–**	**440**	**231**	**1,296**
353,543	**–7,319**	**30,723**	**–4,448**	**–10,099**	**–26,259**	**336,140**	**179,925**	**202,986**

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	Additions	Transfers	Disposals[1]	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 properties	**19,333**	**–**	**–**	**1**	**–**	**–1**	**19,334**
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	1,304	–	–	–	–	–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**	**–**	**–16,437**	**556,529**

[1] Reclassification to non-current assets held for sale.

	Accumulated depreciation and amortisation						Carrying amounts	
	01/01/2019	Adjustment due to corrections	Currency adjustment	Additions	Disposals	31/12/2019	31/12/2019	01/01/2019
	5,916	–	–7	798	–854	5,853	1,820	1,726
	206	–	–4	–	–	202	–	–
	89	–	–1	24	–	111	3,320	3,345
	59	–	–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	**–**	**–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	–9,984	216,790	69,778	85,526
	35,348	–	16	5,637	–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	–	–	–	–	71	28	28
	150	–	–	–	–	150	50	50
	–	–	–	–	–	–	–	–
	220	–	–	–	–	220	1,029	1,084
	–	–	–	–	–	–	189	213
	–	–	–	–	–	–	–	–
	442	**–**	**–**	**–**	**–**	**441**	**1,296**	**1,374**
	321,131	**–**	**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.

12. DEFERRED TAX ASSETS

Deferred taxes are allocable to the following items:

in € thousands	31/12/2020 Deferred tax assets	31/12/2020 Deferred tax liabilities	31/12/2019 Deferred tax assets	31/12/2019 Deferred tax liabilities
Intangible assets	393	3,498	502	3,491
Property, plant and equipment	2,027	8,649	3,834	9,407
Investment properties	–	30	–	–
Financial assets	281	–	483	0
Inventories	1,503	–	1,672	70
Receivables and assets	270	9	1,078	751
Pension provisions	2,824	–	3,140	–
Other provisions	745	449	910	300
Liabilities	4,457	207	4,617	941
Other	234	1	162	1,058
Gross value of deferred taxes on temporary valuation differences	**12,733**	**12,843**	**16,400**	**16,018**
Loss allowances for temporary valuation differences	–2,020	–	–4,639	–
Tax loss carry-forwards	6,268	–	7,061	–
Loss allowances for tax loss carry-forwards	–5,470	–	–5,967	–
Offsetting	–6,200	–6,200	–7,467	–7,467
	5,311	**6,643**	**5,388**	**8,550**

Deferred taxes are recognised outside profit or loss if the taxes relate valuation differences of 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	31/12/2020	31/12/2019
Can be carried forward for up to 5 years	10,042	15,013
Can be carried forward for up to 10 years	2,933	268
Can be carried forward for more than 10 years	1,249	1,571
Can be carried forward indefinitely	3,892	5,679
	18,116	**22,530**

The unused commercial tax loss carry-forwards in the amount of €7,768 thousand (previous year: €4,589 thousand) can be carried forward indefinitely.

No deferred tax assets were recognised for positive temporary valuation differences of €9,632 thousand (previous year: €17,796 thousand).

Deferred taxes of €639 thousand (previous year: €985 thousand) were capitalised without being offset by profits arising 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 2020 financial year or in the previous year.

Deferred taxes in connection with the actuarial profits and losses recognised directly in equity in the amount of €–39 thousand (previous year: €–783 thousand) were recognised in other comprehensive income.

13. INVENTORIES

in € thousands	31/12/2020	31/12/2019
Raw materials and supplies	**21,052**	**22,806**
Write-down	–3,261	–2,857
Carrying amount	17,791	19,949
Work in progress	**13,274**	**18,857**
Write-down	–1,531	–1,272
Carrying amount	11,743	17,585
Finished goods	**15,950**	**23,449**
Write-down	–3,309	–2,683
Carrying amount	12,641	20,766
Merchandise	**436**	**1,363**
Write-down	–43	–601
Carrying amount	392	762
Advance payments made on inventories	**254**	**840**
	42,822	**59,902**

Of the total amount, inventories with a carrying amount of €17,738 thousand (previous year: €22,888 thousand) were recognised at net realisable value.

14. TRADE RECEIVABLES

in € thousands	31/12/2020	31/12/2019
Receivables from		
– third parties	43,347	58,939
– affiliated companies	–	11
	43,347	**58,950**

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 €2,398 thousand (previous year: €2,639 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 43 in the section on credit and default risk.

15. INCOME TAX RECEIVABLES

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

16. 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	31/12/2020	31/12/2019
Financial receivables from		
– third parties	17	33
– investees	0	65
Other assets	9,751	11,965
	9,768	**12,063**

The other assets largely concern tax refund claims, insurance settlement claims and prepaid expenses comprising advance payments made for contracts with a term beyond the reporting date. Apart from the prepaid expenses of €906 thousand (previous year: €1,307 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 €886 thousand (previous year: €901 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 43 in the section on credit and default risk.

17. 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 €353 thousand (previous year: €16 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.

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

The land and buildings at the Fulda site were reclassified in the reporting year. The negotiations on the sale began in the second quarter of 2020 and were concluded in February 2021. See the information in the "Events after reporting period" section.

The reclassifications had the following impact on the statement of financial position:

in € thousands	31/12/2020
Land and buildings	–4,105
Factory and office equipment	–118
Advance payments/assets under construction	–45
Investment properties	–2,750
Reclassifications	–7,017
Additions since resolution to sell	971
Assets held for sale	7,989

No liabilities are directly attributable to the reclassified land and buildings.

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

Gains/losses from the discontinued it/services segment[1]:

in € thousands	2020	2019
Revenue	17,047	17,152
Expenses	–16,725	–17,956
Result from operating activities	322	–804
Deferred tax expense	–235	–6
Earnings after taxes	87	–810
Basic earnings per share	–0.011	–0.104

[1] Presentation without the energy supply business, which was extracted from the it/services segment in December 2020 and sold within the KAP Group.

Apart from deferred tax expenses, no income taxes are being reclassified because the companies from this segment are included in the tax group with KAP AG and no current income taxes arose for this tax group in the reporting year. Calculating on the basis of the standardised tax rate of 30% would result in income taxes of €26 thousand.

In addition to gains/losses from the it/services segment, gains/losses from discontinued operations also includes income from released liability obligations of €627 thousand (previous year: €3,337 thousand). This income is connected with the MVS Group, which was sold in 2014. The KAP Group made a commitment to the acquirer for any risks arising from warranties and price audits for revenue up to the date of the disposal of the shares. The obligations are decreasing over time. Because no current income taxes arise for KAP AG's tax group in the reporting year, no current income taxes are due on the reversal of the provision through profit or loss. A standardised tax rate of 30% would result in a tax expense of €188 thousand.

Cash flows from the discontinued it/services segment:

in € thousands	2020
Cash flow from operating activities	1,731
Cash flow from investing activities	–220
Cash flow for the year	1,511

Reclassification of the balance sheet items of the discontinued it/services segment:

in € thousands	31/12/2020
Intangible assets	–3,110
Property, plant and equipment	–1,530
Deferred tax assets	–72
Inventories	–9
Trade receivables and other assets	–2,171
Cash and cash equivalents	–271
	–7,164
Assets held for sale	7,164
Provisions for pensions	–542
Deferred tax liabilities	–306
Other non-current liabilities	–20
Current provisions	–1,433
Current financial liabilities	–11
Other current liabilities	–2,584
	–4,896
Liabilities in connection with discontinued operations	4,896

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 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 reporting year, the Management Board and Supervisory Board resolved to issue 7,210 new no-par-value shares.

The new shares were issued to a new member of the Management Board in return for cash contributions. Registration and the effectiveness of the capital increase occurred in January 2021.

Capital reserve

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

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.

Net result
The net 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

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

For the 2020 financial year, the annual bonus for one member of the Management Board is €83,000 and the proportion paid in shares is €41,500. For the subsequent calendar years, the size of the annual bonus depends on specific successes by KAP AG or other performance indicators that are determined by KAP AG's Supervisory Board at its reasonable discretion each year. The target attainment can be between 0% and 200%. 100% target attainment corresponds to a bonus of €100,000. The number of shares is calculated by dividing the equity component by the average unweighted XETRA closing price of the KAP share for the last 20 trading days prior to approval of the annual financial statements of KAP AG for the respective year. Like the annual bonus, the number of virtual shares awarded to the members of the Management Board depends on specific successes by KAP AG or other performance indicators that are determined by KAP AG's Supervisory Board at its reasonable discretion each year. The target attainment can be between 0% and 200%. For one member of the Management Board, 100% target attainment in the period from 1 March 2020 to 31 December 2020 corresponds to a reference amount of €104,167 and in subsequent calendar years will correspond to a reference amount of €125,000. For another member of the Management Board, 100% target attainment in the period from 1 October 2020 to 31 December 2020 corresponds to a reference amount of €25,000 and in subsequent calendar years will correspond to a reference amount of €100,000. The virtual shares are to be allotted following approval of the annual financial statements of KAP AG for the respective year. The number of virtual shares is determined by dividing the reference amounts by the average unweighted XETRA closing price of the KAP share. The vesting period for the virtual shares is four years after allotment. After the end of the waiting period, a cash settlement is made for each virtual share in the amount of the average unweighted XETRA closing price of the KAP share for the last 30 trading days before the end of the waiting period, which closing price is adjusted for dividends and subscription rights. Notwithstanding this, a maximum limit is agreed for all members of the Management Board. The virtual shares are protected from corporate actions by adjusting the number of virtual shares. The expense for share-based payments recognised in the financial year amounts to €41.5 thousand. A current liability was recognised in this amount for the annual bonus to be settled in shares for one member of the Management Board for the 2020 financial year. No expense from the award of the virtual shares was recognised in the year under review yet, as they are only allotted or vested after approval of the annual financial statements of KAP AG for the respective year.

21. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

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

in € thousands	31/12/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016
Pension obligations	18,094	19,682	17,829	18,199	20,667
Similar obligations	186	218	251	281	292
	18,280	**19,900**	**18,080**	**18,480**	**20,958**

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 €9,996 thousand (previous year: €10,712 thousand), MEHLER ENGINEERED PRODUCTS GMBH in the amount of €2,406 thousand (previous year: €2,515 thousand) and Gear Motion GmbH in the amount of €4,685 thousand (previous year: €4,846 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	2020	2019	2018	2017	2016
Present value of the unfunded obligations	19,556	21,479	19,588	19,943	22,375
Fair value of plan assets	–1,462	–1,797	–1,759	–1,744	–1,708
Pension obligations as of 31 December	**18,094**	**19,682**	**17,829**	**18,199**	**20,667**

Development of the pension provisions

in € thousands	2020	2019	2018	2017	2016
Balance as of 1 January	**19,682**	**17,829**	**18,199**	**20,667**	**19,332**
Pensions paid	–1,095	–1,079	–1,091	–1,078	–1,036
Allocation	67	2,951	694	–951	2,467
Addition	–	–	27	745	–
Disposal	–542	–	–	–634	–96
Reversal	–	–	–	–550	–
Currency differences	–17	–19	–	–	–
Balance as of 31 December	**18,094**	**19,682**	**17,829**	**18,199**	**20,667**
– of which pension provisions	19,556	21,479	19,588	19,943	22,375
– of which assets	–1,462	–1,797	–1,759	–1,744	–1,708

Pension obligations of €1,053 thousand (previous year: €1,078 thousand) are due within one year. In more than one year, but within five years, €2,709 thousand (previous year: €2,616 thousand) falls due. After more than five years, €14,519 thousand (previous year: €16,206 thousand) falls due.

Pension expenses

in € thousands	2020[1]	2019	2018	2017	2016
Current service cost	25	24	24	23	43
Interest expense	172	319	327	251	374
Deferred compensation	–	–	–	–	–
Past service cost	–	–	–	–	–
Components recognised through profit and loss	**197**	**343**	**350**	**274**	**417**
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	–96	189	115	–151	–26
Actuarial gains (–)/losses (+) from plan assets	–34	–23	–22	–31	–20
Effect of asset ceiling	–	–	–4	4	–7
Components recognised directly in equity	**–130**	**2,608**	**343**	**–1,775**	**2,050**
	67	**2,951**	**694**	**–1,501**	**2,467**
– of which allocation	67	2,951	694	–951	2,467
– of which reversal	–	–	–	–550	–

[1] Including the discontinued it/services business.

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 return on plan assets amounted to €46 thousand in the financial year (previous year: €55 thousand).

Significant bases of calculation and assumptions for valuation

%	31/12/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016
Actuarial interest rate	0.90	0.90	1.85	1.85	1.25
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

	2020		2019	
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	18,355	20,879	18,633	21,302
Interest expense	249	81	274	90
Service cost	18	22	22	27

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:

%	31/12/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016
Actuarial interest rate	9.00	9.00	9.00	8.76	8.76
Increase in healthcare costs	6.73	6.73	6.73	7.56	7.56

22. FINANCIAL LIABILITIES

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

in € thousands	31/12/2020	Of which remaining term of more than 1 year	31/12/2019	Of which remaining term of more than 1 year
Banks	55,857	46,877	78,060	64,570
Leases	13,937	12,158	15,346	13,566
Third parties	754	8	667	8
	70,548	**59,044**	94,073	78,143

The effective interest rates of the liabilities to banks range between 1.4% and 4.3% (previous year: 1.25% and 9.75%).

The financing by some banks is linked to an equity ratio of 30.0%. The ratio of net debt to EBITDA must not exceed 3.0. The financial covenants 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	01/01/2020	Currency difference	Allocation	Utilisation	Reversal	Reclassification [1]	31/12/2020
Personnel	8,247	–34	14,809	–7,979	–335	–997	13,710
Complaints and guarantees	9,997	–14	2,524	–694	–1,145	–425	10,244
Restructuring measures	351	–	345	–86	–	–	609
Impending losses from pending transactions	449	–	126	–172	–189	–	214
Other provisions	3,756	–143	1,395	–1,799	–875	–11	2,323
	22,799	**–191**	**19,199**	**–10,730**	**–2,544**	**–1,433**	**27,100**

[1] Reclassified to liabilities in connection with discontinued operations.

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.

The provisions for restructuring measures were created for costs in connection with the extensive restructuring of the engineered products segment.

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.

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 €2,553 thousand (previous year: €4,247 thousand) will have a term of more than one year.

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. CURRENT INCOME TAXES

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

27. OTHER LIABILITIES

in € thousands	31/12/2020	31/12/2019
Contract liabilities	7	2,391
Other liabilities	7,449	7,321
	7,456	**9,712**

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 €2,391 thousand (previous year: €1,436 thousand).

The item mainly includes accrued wages and salaries and liabilities for social security of €719 thousand (previous year: €722 thousand) and accruals from prepayments received for contracts with a term beyond the reporting date. Apart from the accruals of €731 thousand (previous year: €735 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	2020	2019
Continuing operations	322,662	356,011
Discontinued operations	16,028	16,792
	338,690	**372,803**

The breakdown of revenue by product group and geographical area is presented in the segment reporting under note 46.

29. OTHER OPERATING INCOME

in € thousands	2020	2019
Insurance compensation	13,084	15,666
Reversal of impairment losses on property, plant and equipment	4,449	0
Rental income from investment properties	3,940	3,885
Exchange rate gains	1,890	1,178
Reversal of provisions	2,544	2,388
Rental income	730	745
Disposal of fixed assets	570	433
Reversal of loss allowances for expected losses	206	312
Other income	1,661	4,592
	29,072	**29,200**

The reversal of impairment losses on property, plant and equipment relates to an impairment loss in the engineered product segment recognised in 2017. Due to the extensive restructuring in this segment, the conditions that led to the impairment permanently changed.

The insurance compensation results from the fire damage at our sites in Heinsdorfergrund, Germany, in Hungary and in the USA (all in the surface technologies segment).

30. COST OF MATERIALS

in € thousands	2020	2019
Raw materials and supplies	134,084	166,536
Purchased services	24,785	30,346
	158,869	**196,882**

31. PERSONNEL EXPENSES

in € thousands	2020	2019
Wages and salaries	74,175	74,764
Social security contributions and expenses for pension schemes	15,940	17,251
	90,115	**92,015**

Social security contributions and expenses for pension schemes include expenses for statutory pension insurance in the amount of €3,311 thousand (previous year: €3,526 thousand) and for defined contribution plans of €472 thousand (previous year: €471 thousand). Personnel expenses contain government grants in the amount of €671 thousand (previous year: €0 thousand).

On average, the Group employed:

	2020	2019
Blue collar workers	1,877	2,009
White collar employees	816	840
	2,693	**2,849**
Trainees	43	64
	2,736	**2,913**

32. DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES

in € thousands	2020	2019
Intangible assets	4,197	6,919
Property, plant and equipment	26,318	39,520
Investment properties	208	310
Addition from discontinued operations	–763	–973
	29,960	**45,776**

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

Moreover, the unscheduled write-downs of property, plant and equipment include impairment of €2,202 thousand (previous year: €14,390 thousand). These concern the **surface technologies** segment (previous year: the **engineered products** and **surface technologies** segments).

33. OTHER OPERATING EXPENSES

in € thousands	2020	2019
Legal and consulting costs	11,283	9,672
Maintenance	10,485	12,440
Outgoing freight	6,180	6,478
Complaints and guarantees	2,684	1,471
Packaging material	2,702	3,107
Insurance	2,241	1,583
Currency exchange losses	1,943	1,175
Expenses for investment properties	1,645	1,159
Allocation to provisions	1,062	13
Commissions	1,053	1,084
Other taxes	951	995
Additions to loss allowances for expected losses	537	727
Losses from the disposal of fixed assets	365	579
Rent and leasing	339	764
Credit losses	175	190
Other expenses	11,316	17,132
	54,961	**58,570**

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

34. INTEREST RESULT

in € thousands	2020	2019
Interest income		
Third parties	73	32
Equity investments	57	83
Other	38	479
	168	**594**
Interest expense		
Third parties	–2,825	–3,720
Compounding of interest on pension obligations	–167	–310
Leasing	–400	–436
Other	–314	–776
	–3,538	**–4,648**

35. OTHER FINANCIAL RESULT

in € thousands	2020	2019
Currency exchange losses from financing activities	–3,922	–1,256
Income from the disposal of shareholdings	100	–
	–3,822	**–1,256**

The income from the disposal of shareholdings results from the sale of the at-equity participation in Safe-Box Self Storage Mönchengladbach GmbH, Mönchengladbach, Germany.

36. INCOME TAXES

in € thousands	2020	2019
Current income taxes	–1,937	–3,316
Deferred taxes – temporary valuation differences	2,148	2,565
Deferred taxes – tax loss carry-forwards	–330	–209
	–119	**–960**

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 9% and 38%).

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

in € thousands	2020	2019
Consolidated annual result before income taxes	–3,279	–15,687
KAP Group income tax rate	30%	30%
Expected income tax claim	**984**	**4,706**
Variance due to different tax rates	–359	–1,855
Tax reductions (+)/increases (–) due to tax-exempt income/non-tax-deductible expenses	–2,054	–1,651
Income tax claims from previous years	396	904
Change in loss allowance for deferred tax assets	972	–4,463
Other effects	–58	1,399
Income taxes according to the statement of income	**–119**	**–960**
Effective tax rate	**–3.6%**	**–6.1%**

Due to actuarial gains and losses being recognised directly in other comprehensive income, deferred taxes in the amount of €39 thousand (previous year: €–783 thousand) were also recognised directly in equity under revenue reserves.

37. 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.

38. 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 year under review.

	2020	2019
Consolidated annual result of KAP AG shareholders (in € thousands)	–2,961	–14,045
Weighted average shares (in thousands)	7,760	7,760
Earnings per share (in €)		
– of which from continuing operations	–0.44	–2.15
– of which from discontinued operations	0.09	0.33
	–0.35	**–1.82**

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

OTHER DISCLOSURES

39. EXPENSES FOR RESEARCH AND DEVELOPMENT

Expenses for research and development in the reporting year amounted to €1,605 thousand (previous year: €1,721 thousand).

40. CONTINGENT ASSETS AND LIABILITIES

A contingent asset arises from possible reimbursement payments by the insurer for damage caused by the fire at the site in Spartanburg, South Carolina, USA, in October 2020.

41. 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	2020	2019
Guarantees	–	–
Warranties	74	73
Collateral	–	–
Total	**74**	**73**

42. OTHER FINANCIAL OBLIGATIONS

in € thousands	2020	2019
Intangible assets	6	14
Property, plant and equipment	3,181	3,854
Investment properties	639	–
Obligations from non-cancellable leases	721	522
Obligation from liquidity commitments	10	10
Total	**4,557**	**4,400**

The other financial obligations in connection with fixed assets are the obligations from binding orders.

43. FINANCIAL INSTRUMENTS

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not contain any information on the fair value for financial assets and financial liabilities that have not been measured at fair value when the carrying amount is a reasonable approximation of the fair value. Trade receivables and other receivables and trade payables and other liabilities that are classified as held for sale are not included in the following table (see note 18). Their carrying amount is a reasonable approximation of the fair value.

Statement of financial position item	Measurement category under IFRS 9	Carrying amount	Fair value hierarchy level 1	Fair value hierarchy level 2	Fair value hierarchy level 3	Fair value
in € thousands		31/12/2020				31/12/2020
ASSETS						
Shares in affiliated companies	At fair value through profit or loss	28	–	–	–	28
Shares in participations	At fair value through profit or loss	50	–	–	–	50
Loans to participations	Financial assets measured at amortised cost	0	–	–	–	0
Other loans	Financial assets measured at amortised cost	152	–	–	–	152
Trade receivables	Financial assets measured at amortised cost	43,347	–	–	–	43,347
Other receivables and assets	Financial assets measured at amortised cost	9,768	–	–	–	9,768
Cash and cash equivalents		15,694	–	–	–	15,694
EQUITY AND LIABILITIES						
Financial liabilities	Financial liabilities measured at amortised cost	70,548	–	–	–	70,548
Other non-current liabilities	Financial liabilities measured at amortised cost	0	–	–	–	0
Trade payables	Financial liabilities measured at amortised cost	18,858	–	–	–	18,858
Other liabilities	Financial liabilities measured at amortised cost	6,718	–	–	–	6,718

Statement of financial position item	Measurement category under IFRS 9	Carrying amount	Fair value hierarchy level 1	Fair value hierarchy level 2	Fair value hierarchy level 3	Fair value
in € thousands		31/12/2019				31/12/2019
ASSETS						
Shares in affiliated companies	At fair value through profit or loss	28	–	–	–	28
Shares in participations	At fair value through profit or loss	50	–	–	–	50
Loans to participations	Financial assets measured at amortised cost	1,029	–	–	–	1,029
Other loans	Financial assets measured at amortised cost	189	–	–	–	189
Trade receivables	Financial assets measured at amortised cost	58,950	–	–	–	58,950
Other receivables and assets	Financial assets measured at amortised cost	12,063	–	–	–	12,063
Cash and cash equivalents		5,077	–	–	–	5,077
EQUITY AND LIABILITIES						
Financial liabilities	Financial liabilities measured at amortised cost	94,073	–	–	–	94,073
Other non-current liabilities	Financial liabilities measured at amortised cost	221	–	–	–	221
Trade payables	Financial liabilities measured at amortised cost	23,774	–	–	–	23,774
Other liabilities	Financial liabilities measured at amortised cost	6,586	–	–	–	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.

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	2020	2019
Loans and receivables		
Interest income	130	117
Impairments (–)/reversals	–506	–663
Financial liabilities		
Interest expenses	3,225	4,175
Exchange rate gains and losses (–) from financing activities	–4,038	–1,251

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 expected credit losses over lifetime 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 2020 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 2020 was determined as follows for trade receivables and contract assets:

31/12/2020 [1]

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	45,123	202	37	383	**47,858**
Loss allowances	1,870	127	18	383	**2,398**

01/01/2020

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**

[1] Including discontinued operations.

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:

31/12/2020

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	–	–	–	–
Banks	8,980	47,487	370	56,837
Leases	1,779	4,051	8,107	13,937
Affiliated companies	–	–	–	–
Investees	–	–	–	–
Third parties	746	–	8	754
Trade payables	18,858	–	–	18,858
Other liabilities	6,718	–	–	6,718
	37,382	**51,538**	**8,485**	**97,405**

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
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
	46,289	**56,750**	**21,615**	**124,655**

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 sought 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 2020:

	US dollar		British pound		Russian rouble	
in thousands	USD	EUR	GBP	EUR	RUB	EUR
ASSETS						
Trade receivables	6,130	5,264	192	212	–	–
Other assets	3,313	2,699	–	–	–	–
Cash and cash equivalents	5,640	4,595	10	11	408	4
Total	**15,083**	**12,558**	**202**	**223**	**408**	**4**
EQUITY AND LIABILITIES						
Financial liabilities	13	10	–	–	–	–
Trade payables	866	719	6	6	–	–
Total	**879**	**729**	**6**	**6**	**–**	**–**
Revenue	**12,494**	**12,178**	**2,314**	**2,631**	**355**	**4**

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						
Trade payables	–	–	–	–	–	–
Other liabilities	260	234	–	–	–	–
Total	**260**	**234**	**–**	**–**	**–**	**–**
Revenue	**11,258**	**10,026**	**1,902**	**2,156**	**–**	**–**

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 2020 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:

	2020		2019	
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	279	–559	328	–656

44. EVENTS AFTER THE REPORTING DATE

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

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

in € thousands	Carrying amounts before purchase price allocation	Adjustment	Preliminary purchase price allocation
Non-current assets			
Intangible assets	0	6,900	6,900
Property, plant and equipment	1,599	–	1,599
Deferred tax assets	0	–	0
	1,599	**6,900**	**8,499**
Current assets			
Inventories	351	–	351
Trade receivables	327	–	327
Other receivables and assets	46	–	46
Cash and cash equivalents	1,201	–	1,201
	1,925	**–**	**1,925**
Assets	**3,524**	**6,900**	**10,424**
Non-current liabilities			
Deferred tax liabilities	0	1,725	1,725
Financial liabilities	487	–	487
Pension obligations	0	–	0
	487	**1,725**	**2,212**
Current liabilities			
Other provisions	45	–	45
Current financial liabilities	183	–	183
Trade payables	310	–	310
Current income taxes	0	–	0
Other liabilities	310	–	310
	848	**–**	**848**
Liabilities	**1,335**	**1,725**	**3,060**
Net assets	**2,189**	**5,175**	**7,364**
Goodwill	–	–	3,383
Minority interests' share	–	–	–2,364
Purchase price of shares	**–**	**–**	**8,383**

The preliminary purchase price allocation of assets and liabilities resulted in non-tax-deductible goodwill of €3,383 thousand under the full goodwill method. The goodwill was allocated to the flexible films segment. It represents non-separable assets such as employees' know-how, positive earnings expectations for the future and synergies from development, sales and marketing. In the first quarter of 2021, the AerO Group generated revenue of €1,029 thousand and a net profit for the year of €101 thousand.

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

In the past financial year, the Management Board together with the Supervisory Board decided to sell the land and buildings at the Fulda site. The land and buildings have a carrying amount of €7.0 million. On 16 February 2021, Mehler Aktiengesellschaft, as the owner, concluded a contract for the sale of the majority of said land and buildings with an investor. The areas used by KAP AG and its subsidiaries have been leased back on the basis of long-term leases. The gross sale proceeds amounted to €37.4 million. Of these gross sale proceeds, €7.0 million is subject to the condition precedent that a tenant not belonging to the KAP Group extend its existing lease with Mehler Aktiengesellschaft. The execution of the contract is also subject to further customary conditions and is planned by the end of November 2021 at the latest. The sale of the parts of the land and buildings in Fulda not sold with this contract is likewise planned for 2021.

In the past financial year, the Management Board and Supervisory Board decided to sell the it/services segment. With the notarial contract of 17 December 2020, Mehler Aktiengesellschaft consequently sold all the shares in MEHLER Engineering und Service GmbH. The sale became legally effective as of 1 January 2021. Before the sale, Mehler Aktiengesellschaft separated the electricity supply business from the company divested and incorporated it into Mehler Aktiengesellschaft and Mehler Grundstücksverwaltungs GmbH. Said business exclusively serves companies within the KAP Group. The sale proceeds from the shares in MEHLER Engineering und Service GmbH were €0.3 million. The other companies allocated to this segment are to be sold in the second quarter of 2021. The negotiations with a potential investor are currently underway. The data centre business that previously belonged to it-novum GmbH provides various IT services principally for other companies in the KAP Group. In January 2021, the Management Board and Supervisory Board decided not to sell this business. The business was consequently separated from it-novum GmbH and incorporated into the existing KAP IT Service GmbH (formerly Platin 1535. GmbH) with effect as of 1 March 2021. The sale proceeds for the assets and liabilities allocated to this business were €0.7 million. The intercompany profits from this internal sale within KAP have been eliminated.

With retroactive effect as of 1 January 2021, on 12 February 2021 Mehler Aktiengesellschaft acquired the remaining 26% of the shares in NOW Contec GmbH, Convert Vliesveredelung GmbH, NOW Contec GmbH & Co. KG and Convert Vliesveredelung GmbH & Co. KG. The purchase price totalled €2.3 million. Following the transaction, the KAP Group holds 100% of the shares in these companies.

With effect as of 1 January 2021, OLBO & MEHLER Tex GmbH & Co. KG was accrued by Mehler Engineered Products GmbH (extended accrual). At the same time, OLBO & MEHLER Tex Verwaltung GmbH was merged into Mehler Engineered Products GmbH. The measures are part of the restructuring in the engineered products segment.

The further course of the coronavirus pandemic continues to represent an uncertainty factor that cannot be conclusively assessed even as of the report preparation date. 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 containment measures that will be needed if the coronavirus spreads further 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 2020.

45. 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 in the consolidated statement of financial position. 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 €211 thousand (previous year: increased by €7 thousand) as a result of exchange rate changes. Cash flow from operating activities comprises:

in € thousands	2020	2019
Interest		
Interest paid (–)	–3,576	–3,870
Interest received	631	99
	–2,945	**–3,771**
Income taxes		
Income taxes paid (–)	–4,754	–3,464
Income taxes refunded	2,436	2,268
	–2,318	**–1,196**

The change in liabilities from financing activities was as follows:

in € thousands	01/01/2020	Net changes in cash	Non-cash changes: Exchange rate changes	Non-cash changes: Other changes	31/12/2020
Banks	78,060	–22,213	10	–	55,857
Leases	15,346	–1,391	13	–	13,968
Other	667	93	–	–	754
	94,073	**–23,511**	**23**	–	**70,579**

in € thousands	01/01/2019	Net changes in cash	Non-cash changes: Exchange rate changes	Non-cash changes: Other changes	31/12/2019
Banks	83,118	–5,075	–13	30	78,060
Leases	481	–2,188	–	17,083	15,346
Other	3,915	–3,248	–	–	667
	87,514	**–10,511**	**–13**	**17,083**	**94,073**

46. 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 markets a broad range of special products made from technical threads and fabrics that are used, for example, in the automotive supplier 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 provides IT and engineering services. In the reporting year, the decision was made to sell the segment, excluding the energy supply business. The segment, excluding the energy supply business, is presented in the statement of income as a discontinued operation.

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., 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 is shown in the "Segment reporting by business area" 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 €30,491 thousand (previous year: €35,678 thousand). The segment includes reversals of impairments of property, plant and equipment of €4,448 thousand (previous year: impairments of €9,493 thousand). The reversals of impairments became necessary because the conditions that led to the impairment in 2017 permanently changed.

The segment result is defined as the net amount of the segment EBITDA (earnings before interest, depreciation and amortisation and taxes. 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 €0 thousand (previous year: €2,559 thousand) due to an impairment in 2019 and impairments of €2,202 thousand due to a fire at the Spartanburg site in the USA (previous year: €4,897 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 2020

	engineered products		flexible films		surface technologies		precision components	
in € thousands	2020	2019	2020	2019	2020	2019	2020	2019
Revenue	**126,985**	**150,688**	**100,150**	**89,239**	**53,537**	**64,125**	**39,631**	**49,533**
Segment result [1]	2,619	1,482	14,798	10,120	18,468	21,584	1,748	2,165
Depreciation, amortisation and impairments	7,577	17,046	3,322	3,675	14,204	9,121	4,041	4,335
Operating result	–4,958	–15,564	11,476	6,445	4,264	1,972	–2,293	–2,170
Investments [2]	1,778	2,924	2,016	2,365	14,855	7,295	2,204	2,488
Working capital	33,067	52,866	20,749	21,100	2,302	4,911	12,488	15,380
Employees as of 31 December	870	948	321	326	769	761	617	619

	Discontinued operations: it/services [3]		Reconciliation [4]		Consolidation		Consolidated result	
in € thousands	2020	2019	2020	2019	2020	2019	2020	2019
Revenue	**22,323**	**23,276**	**4**	**3**	**–3,940**	**–4,060**	**338,690**	**372,803**
Segment result [1]	4,136	3,030	6,350	–4,855	–182	2,643	35,238	36,169
Depreciation, amortisation and impairments	784	996	848	829	–54	256	30,723	36,258
Operating result	3,352	2,034	–7,198	–5,684	–127	2,388	4,515	–10,579
Investments [2]	529	1,537	247	824	0	2	21,628	17,435
Working capital	1,398	2,168	–1,513	–1,330	–339	–17	68,152	95,078
Employees as of 31 December	122	120	59	35	0	0	2,736	2,809

[1] The segment result is defined as the segment EBITDA.
[2] Relates to intangible assets and property, plant and equipment.
[3] The disposal process has been initiated for the it/services segment. The segment result is recognised in the statement of income as a discontinued operation.
[4] This includes all companies that are not allocated to a segment. The energy supply business, which was separated from the it/services segment and sold within the Group, is also reported here.

SEGMENT REPORTING BY GEOGRAPHIC AREA[1]

FROM 1 JANUARY TO 31 DECEMBER 2020

	Revenue with third parties[2]		Segment assets[3]		Investments[4]	
in € thousands	2020	2019	2020	2019	2020	2019
Germany	134,895	151,312	182,309	210,364	9,683	10,305
Rest of Europe	140,827	144,533	91,113	93,791	12,469	6,166
North/South America	32,340	45,985	15,181	20,928	99	552
Asia	29,638	29,011	23,369	19,326	432	457
Other countries	990	1,962	0	212	0	0
Consolidation	0	0	–2,412	–11,405	–1,055	–45
Continuing operations	**338,690**	**372,803**	**309,559**	**333,216**	**21,628**	**17,435**

As the figures are presented in € thousands, the numbers may not add up due to rounding.
[1] Including discontinued operations.
[2] Segment revenue with external customers by geographical area.
[3] Total carrying amount of the production sites.
[4] Investments in intangible assets and property, plant and equipment.

ADDITIONAL INFORMATION ON SEGMENT REPORTING[1]

in € thousands	2020	2019
Segment result	**35,238**	**36,169**
Amortisation of intangible assets and depreciation and impairment of property, plant and equipment and investment property	–30,723	–46,749
Operating result	**4,516**	**–10,580**
Interest result	–3,548	–4,657
Other financial result	–3,925	–1,253
Financial result	**–7,473**	**–5,910**
Result before income taxes	**–2,957**	**–16,490**
Income taxes	–354	–966
Earnings after income taxes	**–3,311**	**–17,456**
Earnings from discontinued operations after taxes	627	3,337
Consolidated annual result after taxes	**–2,684**	**–14,119**
Share of the result attributable to non-controlling interests	277	–74
Consolidated annual result of KAP AG shareholders	**–2,961**	**–14,044**

[1] Including discontinued operations.

47. 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 49.

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 amounted to 29.89% (1,980,000 voting rights).

Mr Rüdiger Heiche and Mr Gunter Heiche, Schwaigern, Germany, notified us in writing on 12 September 2019 in accordance with section 33 (1) WpHG that their shares of the voting rights in our Company exceeded the threshold of 3% on 10 September 2019 and amount to 4.01%.

Mr William Elias Conway Jr, Mr Daniel Anthony D'Aniello and Mr David Mark Rubenstein notified us in writing in January 2020 that their 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 them 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 are 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 48.

The mandates of the members of the Management Board and the other members of the Supervisory Board of KAP AG are listed under note 48.

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	2020	2019
PARENT COMPANY		
Goods and services provided and received		
Other income	0	16
Other expenses	891	1,982
Receivables and liabilities		
Trade receivables	0	11
INVESTEES		
Goods and services provided and received		
Interest income from loans granted	57	83
Receivables and liabilities		
Loans	0	1,029
Financial receivables	0	65
OTHER RELATED COMPANIES		
Goods and services provided and received		
Other expenses	83	127
Receivables and liabilities		
Trade payables	0	28

The Management Board's remuneration is paid via Projekt Diamant Administration GmbH, and this remuneration is then invoiced to KAP AG. Both for the reporting year and for the previous year, these expenses are shown as expenses in connection with related companies.

48. MANAGEMENT BOARD AND SUPERVISORY BOARD

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

Uwe Stahmer,
Management Board Member
(until 28 February 2020)
Business administrator, Bad Zwischenahn, Germany
No other mandates

Eckehard Forberich,
Spokesman of the Management Board
(since 1 March 2020)
Diplom-Kaufmann (certified business administrator), Frankfurt, Germany
No other mandates

Dr Alexander Riedel,
Chief Financial Officer (CFO)
(until 30 September 2020)
Diplom-Wirtschaftsingenieur
(certified industrial engineer), Munich, Germany
No other mandates

Marten Julius,
Chief Financial Officer (CFO)
(since 1 October 2020)
Diplom-Kaufmann (certified business administrator), Nuremberg, 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, Vice Chairman
(until 27 November 2020)
Diplom-Kaufmann (certified business administrator), Stadtallendorf, Germany

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

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

Joachim Coers
Diplom-Volkswirt (certified economist), Nonnenhorn, Germany
No other mandates

Christoph Schoeller
(from 23 December 2020)
Business administrator, Hamburg, Germany
No other mandates

Uwe Stahmer
(from 1 March 2020)
Business administrator, Bad Zwischenahn, Germany
Management consultant
No other mandates

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

Remuneration granted to the Management Board

Name	Forberich, Eckehard	Julius, Marten
Function	Member and Spokesman of the Management Board	CFO
Assumption of office	01/03/2020	01/10/2020
Left office	n/a	n/a

in € thousands	2020	2020 (min.)	2020 (max.)	2019	2019 (min.)	2019 (max.)	2020	2020 (min.)	2020 (max.)	2019	2019 (min.)	2019 (max.)
Fixed remuneration	298	298	298	n/a	n/a	n/a	77	77	77	n/a	n/a	n/a
Fringe benefits	–	–	–	n/a	n/a	n/a	0	0	0	n/a	n/a	n/a
Total fixed remuneration	**298**	**298**	**298**	**n/a**	**n/a**	**n/a**	**77**	**77**	**77**	**n/a**	**n/a**	**n/a**
One-year variable remuneration	42	0	167	n/a	n/a	n/a	50	0	50	n/a	n/a	n/a
Total variable remuneration	**42**	**0**	**167**	**n/a**	**n/a**	**n/a**	**50**	**0**	**50**	**n/a**	**n/a**	**n/a**
Share-based payment	**41**	**0**	**417**	**n/a**	**n/a**	**n/a**	**0**	**0**	**100**	**n/a**	**n/a**	**n/a**
Total remuneration	**381**	**298**	**882**	**n/a**	**n/a**	**n/a**	**127**	**77**	**227**	**n/a**	**n/a**	**n/a**

Name	Riedel, Alexander, Dr	Stahmer, Uwe	Decker, Guido
Function	CFO	Member of the Management Board	Member and Spokesman of the Management Board
Assumption of office	01/05/2018	01/10/2019	01/08/2017
Left office	30/09/2020	28/02/2020	30/09/2019

in € thousands	2020	2019		2020	2019		2020	2019	
Fixed remuneration	234	312		60	105		–	255	
Fringe benefits	9	11		1	1		–	12	
Total fixed remuneration	**243**	**323**		**61**	**106**		–	**267**	
One-year variable remuneration (incl. compensation)	325	125		–	–		–	617	
Total variable remuneration (incl. compensation)	**325**	**125**		–	–		–	**617**	
Stock option plan	–	–		–	–		–	–	
Total remuneration	**568**	**448**		**61**	**106**		–	**884**	

Remuneration received by the Management Board

Name	Forberich, Eckehard	Julius, Marten
Function	Member and Spokesman of the Management Board	CFO
Assumption of office	01/03/2020	01/10/2020
Left office	n/a	n/a

in € thousands	2020	2019
Fixed remuneration	298	n/a
Fringe benefits	–	n/a
Total fixed remuneration	**298**	**n/a**
One-year variable remuneration	–	n/a
Total variable remuneration	**–**	**n/a**
Share-based payment	**0**	**n/a**
Total remuneration	**298**	**n/a**

in € thousands	2020	2019
Fixed remuneration	77	n/a
Fringe benefits	0	n/a
Total fixed remuneration	**77**	**n/a**
One-year variable remuneration	0	n/a
Total variable remuneration	**0**	**n/a**
Share-based payment	**0**	**n/a**
Total remuneration	**77**	**n/a**

Name	Riedel, Alexander, Dr	Stahmer, Uwe	Decker, Guido
Function	CFO	Member of the Management Board	Member and Spokesman of the Management Board
Assumption of office	01/05/2018	01/10/2019	01/08/2017
Left office	30/09/2020	28/02/2020	30/09/2019

in € thousands	2020	2019	2020	2019	2020	2019
Fixed remuneration	234	312	60	105	–	255
Fringe benefits	9	11	1	1	–	12
Total fixed remuneration	**243**	**323**	**61**	**106**	**–**	**267**
One-year variable remuneration (incl. compensation)	238	60	–	–	–	717
Total variable remuneration (incl. compensation)	**238**	**60**	**–**	**–**	**–**	**–**
Stock option plan	**–**	**–**	**–**	**–**	**–**	**–**
Total remuneration	**481**	**383**	**61**	**106**	**–**	**984**

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 Forberich, Mr Julius, Mr Decker and Dr Riedel is invoiced to KAP AG by Project Diamant Administration GmbH, Frankfurt am Main, Germany.

Pension obligations include pension obligations for former members of the Management Board amounting to €1.281 thousand (previous year: €1,336 thousand).

The members of the Supervisory Board received total remuneration of €117 thousand (previous year: €87 thousand).

49. 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 %
Mehler Aktiengesellschaft	Fulda, Germany	100.00[1]
CaPlast Kunststoffverarbeitungs GmbH	Nordkirchen (Capelle), Germany	100.00[1]
Convert Vliesveredelung GmbH	Detmold, Germany	74.00
Convert Vliesveredelung 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]
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[2]	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
Steinweg Kunststoffolien GmbH	Castrop-Rauxel, Germany	75.00[1]
Technolen technický textil s.r.o.	Hlinsko, Czech Republic	100.00
Heiche Logistic 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]

Companies included in the consolidated financial statements	Registered office	Share in capital in %
Gt Oberflächen GmbH	Heinsdorfergrund, Germany	100.00 [1]
G. und R. Heiche Beteiligungs GmbH	Schwaigern, Germany	100.00
Heiche Bayern 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 Surface Technologies (AL) LLC	Alabama, USA	100.00
Heiche US Surface Technologies (SC) LLC	Spartanburg, USA	100.00
KAP Surface Technologies US Holding Inc.	Atlanta, USA	100.00
Metallveredlung Döbeln GmbH	Döbeln, Germany	100.00 [1]
KAP Textile Holdings SA Limited	South Africa	100.00
UKW Properties (Pty.) Ltd.	South Africa	100.00
KAP Precision Components GmbH	Fulda, Germany	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

[1] Domestic companies that made use of the provisions of section 264 (3) and section 264 b of the German Commercial Code (HGB) on the exemption from the obligation to disclose annual financial statements.
[2] Accrued to MEHLER ENGINEERED PRODUCTS GMBH as of 1 January 2021.

Companies not included in the consolidated financial statements	Registered office	Share in capital in %
Kammgarnbüro GmbH	Frankfurt, Germany	32.81
KAP IT Service GmbH (formerly Platin 1535, GmbH)	Frankfurt, Germany	100.00
Ude technical products GmbH in Insolvenz	Kalefeld, Germany	100.00
Rags and Fabrics (Lesotho) (Pty.) Ltd.	Lesotho	100.00

50. CORPORATE GOVERNANCE STATEMENT

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

51. GROUP AUDITOR'S FEES

Total Group auditor's fees calculated for the year:

in € thousands	2020	2019
Audit of financial statements	827	568
of which previous year	172	–
Other certification services	30	–
Other consulting services	7	18
	864	**586**

The other certification services mainly relate to audit activities in connection with financing.

52. 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 €15,145,660.71 calculated in accordance with the requirements of the German Commercial Code (HGB).

In addition, it is expected to be proposed to the Annual General Meeting on 30 September 2021 that a dividend of €5,825,672.25 (previous year: €0) be distributed from the retained earnings and that the remaining retained earnings of €9,319,988.46 be carried forward. This equates to a dividend of €0.75 (previous year: €0.00) per no-par-value share.

On the basis of the resolution of the Annual General Meeting, €0.00 (previous year: €15,520,706.00) was distributed as a dividend in the 2020 financial year. This equates to a dividend of €0.00 (previous year: €2.00) per no-par-value share.

53. DECLARATION BY THE MANAGEMENT BOARD

The consolidated financial statements and the Group management report of KAP AG for the 2020 financial year were approved for publication by resolution of the Management Board on 22 April 2021.

Fulda, 22 April 2021

KAP AG
Management Board

Eckehard Forberich
Spokesman of the Management Board

Marten Julius
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, 2020, the consolidated statement of income, 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, 2020 to December 31, 2020, 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, 2020 to December 31, 2020. 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, 2020, and of its financial performance for the financial year from January 1, 2020 to December 31, 2020, 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, 2020 to December 31, 2020. 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 AND NON-CURRENT ASSETS

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 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 material amount of goodwill and non-current assets is disclosed in the balance sheet. At 59.2% of the group's total assets these represent a significant item in the balance sheet. As of December 31, 2020, € 7.4 million of this amount is allocated to "goodwill" as well as € 3.3 million to brand names that are subject to an annual impairment test.

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" and brand names 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 assessed the determination and composition of the carrying amount of the cash-generating units based on the criteria of IAS 36. Furthermore, we evaluated the Group's key assumptions and the calculation method with the involvement of our valuation specialists.

We evaluated the plausibility of the underlying future cash flows on the basis of past earnings and information from legal representatives regarding the future development of the respective cash-generating units. 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 as well as with peer companies. We mainly used economic reports from recognized industrial institutions as our sources.

We 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 verified the mathematical accuracy in the valuation model used by the Group.

Finally, we assessed the notes to the consolidated financial statements for impairment of goodwill to determine whether they are appropriate.

Based on our audit procedures, we are satisfied that the assumptions made and parameters set by the Group's legal representatives regarding the book value of goodwill and non-current assets are substantiated and adequately documented.

DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Related information in the consolidated financial statements and group management report
Regarding the accounting and valuation methods applied and the assumptions used, we refer to section 5 "Accounting and valuation principles" and section 18 "Non-current assets held for sale and discontinued operations" in the notes to the consolidated financial statements. Furthermore, we refer to the supplementary report in section 44 of the notes to the consolidated financial statements. Information on the economic development of the discontinued operations can be found in the group management report in the section "Economic report".

Facts and risks to the audit
In the consolidated financial statements of KAP AG earnings from discontinued operations amounting to EUR 0.7 million are recognized and assets amounting to EUR 15.2 million and liabilities amounting to EUR 4.9 million are shown as held for sale.

The disclosures in the consolidated financial statements were made necessary by plans of the legal representatives formulated in 2020, to sell the commercial property at the Fulda site in addition to the it/services segment, consisting of the it-novum Group and MEHLER Engineering und Service GmbH (excluding the power supply segment). The building space currently used by the KAP Group will be leased back on the basis of long-term rental agreements.

In the consolidated financial statements as at 31 December 2020, the it/services segment was disclosed as a discontinued operation so that expenses, income and cash flows attributable to this operation are shown separately. The assets and liabilities of the discontinued operation are correspondingly reclassified as held for sale and reported in the consolidated financial statements.

The non-current assets associated with the commercial property in Fulda are classified as assets held for sale in the consolidated financial statements as at 31 December 2020 in accordance with IFRS 5 and were recognized in accordance with the relevant IFRS until they were classified as held for sale.

The classification of assets as held for sale and the qualification as discontinued operations is subject to discretionary decisions and the disclosures in the consolidated financial statements are complex. Risks within the financial statements arise with regard to the existence of the requirements for classification as held for sale, the completeness of the assets and liabilities to be reclassified and the correct disclosure in the income statement, cash flow statement and notes to the consolidated financial statements.

Audit approach and findings
We have assessed the legal and contractual basis for the sale of the shares in Mehler Engineering und Service GmbH and it-novum Group and examined whether the sale of the it/services segment qualifies as a discontinued operation under IFRS 5. For this purpose, we retraced the management's assessment, we analysed the significance of the segment within the Group and we analysed KAP AG's approach to classifying a discontinued operation. Furthermore, we assessed the disclosure of the discontinued operation and the completeness of these disclosures in the consolidated financial statements.

We examined the requirements for classifying the assets of the commercial property in Fulda as held for sale on the basis of the specifications of IFRS 5 and the present plan of sale. We were able to ensure the completeness of the reclassified assets through analyses and reconciliation work in the fixed assets.

Finally, we assessed the disclosures in the notes on the classification as assets held for sale as to whether they are appropriate and complete.

Based on our audit procedures, we are satisfied that the disclosures of the discontinued operation and the classification as assets and liabilities held for sale in the consolidated financial statements made by the legal representatives are substantiated and adequately documented.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises:

– The "Declaration on Corporate Governance pursuant to Sections 289f 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 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 2020

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

Comment on the audit of the electronic reproductions of the consolidated financial statements and the group management report prepared for the purpose of disclosure in accordance with Section 317 (3b) of the German Commercial Code (HGB)

Audit opinion

We have conducted a reasonable assurance review pursuant to Section 317 (3b) of the German Commercial Code (HGB) of whether the reproductions of the consolidated financial statements and the group management report contained in the attached file [529900PL69Z32D8WH189-2020-12-31_de-4] (MD5-Hash-value: [37f02b2bf44d8f7609db29db62b874a5]) and prepared for disclosure purposes (hereinafter also referred to as "ESEF documents") comply in all material respects with the electronic reporting format ("ESEF format") requirements of Section 328 (1) HGB. In accordance with German legal requirements, this assessment extends only to the transfer of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore neither to the information contained in these reproductions nor to any other information contained in the aforementioned file.

In our opinion, the reproductions of the consolidated financial statements and the group management report contained in the attached file referred to above and prepared for disclosure purposes comply, in all material respects, with the electronic reporting format requirements of Section 328 (1) HGB. We do not express any opinion whatsoever on the information contained in these reproductions or on the other information contained in the above-mentioned file other than this opinion and our opinions on the accompanying consolidated financial statements and the group management report for the financial year from 1 January 2020 to 31 December 2020 contained in the preceding "Report on the audit of the consolidated financial statements and the group management report."

Basis for our audit opinion
We conducted our review of the reproductions of the consolidated financial statements and the group management report contained in the above-mentioned attached file in accordance with Section 317 (3b) HGB and in compliance with the draft IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for Disclosure Purposes in Accordance with Section 317 (3b) HGB (IDW EPS 410) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility thereunder is described further in the section entitled "Auditor's Responsibility for the Audit of the ESEF Documents." Our auditing practice has complied with the quality assurance system requirements of the IDW Quality Assurance Standard: Requirements for Quality Assurance in the Auditing Practice (IDW QS 1).

Responsibility of the legal representatives and the Supervisory Board for the ESEF documents
The company's legal representatives are responsible for the preparation of the ESEF documents including the electronic reproductions of the consolidated financial statements and the group management report in accordance with Section 328 (1) sentence 4 no. 1 HGB and for the tagging of the consolidated financial statements pursuant to Section 328 (1) Sentence 4 No. 2 of the HGB.

Furthermore, the company's legal representatives are also responsible for the internal controls that they deem necessary to enable the preparation of the ESEF documents that are free from material non-compliance, whether intentional or unintentional, with the requirements of Section 328 (1) HGB regarding the electronic reporting format.

The company's legal representatives are also responsible for submitting the ESEF documents, together with the auditor's statement and the accompanying audited consolidated financial statements and the group management report, as well as other documents required to be disclosed, to the operator of the German Federal Gazette (Bundesanzeiger).

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Auditor's Responsibility for the Review of the ESEF Documents
Our objective is to obtain reasonable assurance as to whether the ESEF documents are free from material non-compliance, whether due to fraud or error, with the requirements of Section 328 (1) HGB. While conducting our review, we exercise professional judgment and maintain a critical attitude. Furthermore, we

- identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, plan and perform audit procedures to address these risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.
- obtain an understanding of internal control relevant to the audit of the ESEF documents in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those controls.
- assess the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents complies with the requirements of Delegated Regulation (EU) 2019/815 as amended on the reporting date regarding the technical specification for this file.

– assess whether the ESEF documentation provides a consistent XHTML representation of the consolidated financial statements and the group management report.
– evaluate whether the ESEF documents have been tagged using inline XBRL technology (iXBRL) in a way that enables an appropriate and complete machine-readable XBRL copy of the XHTML copy.

Further information pursuant to Article 10 of the EU Audit Regulation
We were elected as group auditors by the annual general meeting on September 22, 2020. We were engaged by the supervisory board on November 25, 2020. 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 December 31, 2019 and June 30, 2020

Note on the supplementary audit
We issue this opinion on the consolidated financial statements, the group management report and the ESEF documents based on our audit in accordance with professional standards, which was completed on April 22, 2021 and our supplementary audit, which was completed on May 10, 2021 and related to the ESEF documents now presented.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Michael Schaub.

Frankfurt am Main, April 22, 2021/ limited to those specified in the supplemental audit ESEF documents: May 10, 2021

Mazars GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Jörg Maas
Wirtschaftsprüfer

Michael Schaub
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, 22 April 2021

KAP AG
Management Board

Eckehard Forberich
Member and Spokesman of
the Management Board

Marten Julius
CFO

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CONCEPT/DESIGN

Kirchhoff Consult AG, Hamburg, Germany

Note
This annual report was published on 23 April 2021 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.

www.kap.de

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