HALF-YEAR REPORT 2020

1 JANUARY TO 30 JUNE 2020

KEY FIGURES

Selected key figures

		H1 | 2020	H1 | 2019[1]	Change in %
Group				
Revenue	€ millions	170.3	199.5	–14.6
Adjusted EBITDA	€ millions	17.6	18.4	–4.3
Adjusted EBITDA margin	%	10.3	9.2	12.0
Earnings for the period after taxes	€ millions	–1.8	–3.4	–47.1
Earnings per share	€	–0.23	–0.45	–60.0
Investments	€ millions	10.3	7.7	33.8
Depreciation, amortisation and impairments	€ millions	14.1	19.9	–29.1
Cash flow from operating activities	€ millions	22.1	10.8	104.6
		H1 | 2020	**31/12/2019**	**Change in %**
Non-current assets	€ millions	194.0	208.4	–6.9
Current assets	€ millions	197.3	138.3	42.7
Equity	€ millions	156.5	161.0	–2.8
Equity ratio	%	40.0	46.5	–14.0
Non-current liabilities	€ millions	137.0	106.8	28.3
Current liabilities	€ millions	97.8	78.8	24.1
		H1 | 2020	**H1 | 2019**	**Change in %**
Employees (30 June)		2,701	2,923	–7.6

[1] Adjusted due to error correction.

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LETTER TO OUR SHAREHOLDERS

DEAR SHAREHOLDERS,

The first half of the 2020 financial year was shaped by the major economic uncertainties connected with the COVID-19 pandemic, particularly in the second quarter, and was thus challenging. Business development in the engineered products, precision components and surface technologies segments was affected the most because these are highly dependent on the automotive market and, particularly since the end of March, have faced a sharp drop in customer demand. However, our segment strategy with a diversified investment portfolio meant that we were able to partially cushion the impact of the COVID-19 pandemic. Our flexible films segment, for example, benefited from increased customer demand in connection with the coronavirus crisis, particularly in the recently entered market for hygiene applications, and no material impact from COVID-19 was seen in the it/services segment in the reporting period. This shows once again that our diversified segment strategy is paying off. That is how, despite the current global economic crisis, we generated revenue of €170.3 million (previous year: €199.5 million), and our adjusted EBITDA of €17.6 million thus fell by €0.8 million compared to the previous year's level (previous year: €18.4 million). The adjusted EBITDA margin rose to 10.3% and was thus higher than our minimum target return of 10% and 1.1 percentage points higher than the previous year's figure (previous year: 9.2%). This development also confirms the impact of the optimisation and efficiency programmes we initiated in the segments in the past. Thanks to the measures we introduced at an early stage, such as temporary production shutdowns, reduced working hours and working from home, and various other savings, we have so far been able to avoid a more far-reaching impact for our Group and employees. Assuming that there is no currently unforeseeable worsening in the course of the COVID-19 pandemic, we do not expect any further significant adverse effects for the KAP Group in the second half of the year. For full year 2020, we expect total revenue between €300 and 330 million and adjusted EBITDA of €27 to 30 million.

In order to improve operating performance, particularly in the engineered products and precision components segments, we have implemented not only a strict cost-cutting policy but also structural and sales measures. For instance, the closure of the loss-making production sites in Fulda and Jilemnice was initiated in the course of restructuring in the engineered products segment. The aim is to sustainably improve our profitability by concentrating on high-margin areas with development potential. We were also able to advance the reorientation of the precision components segment by intensifying our sales activities and opening up new customer and sales channels. In the first six months of the year, we also continued our investing activities and, for example, invested in new production areas in Poland and in environmental protection and safety. In light of the difficult overall economic situation due to the coronavirus crisis, we are also reviewing our segment strategies in some areas and continue to endeavour to always maintain adequate liquidity or to generate additional liquidity in order to also be able to invest counter-cyclically.

Due to the global COVID-19 pandemic and the associated changes in the market, the need for an impairment test under IAS 36 may arise in the Group. This may then lead to impairment losses. However, because no reliable general data or approved plans at segment and company level currently exist, a test cannot be carried out conclusively at the end of the first half of the year, and one is planned for the 2020 annual financial statements.

We remain committed to our overarching segment strategy and are concentrating on high-growth, fragmented and particularly profitable markets. We want to develop our highly specialised segment companies into market leaders and position ourselves as an industrial group in attractive niche markets. Our focus here is on strengthening our profitability.

Thank you for your trust in our company. We will continue to report transparently on our business development. We are closely observing the course of the coronavirus pandemic in order to be able to both identify developments and introduce corresponding countermeasures at an early stage. We remain committed to our long-term goals and are thus creating the conditions for sustainable business success.

Best regards,

Eckehard Forberich
CEO

Dr Alexander Riedel
CFO

INTERIM MANAGEMENT REPORT

INTERIM MANAGEMENT REPORT

MACROECONOMIC ENVIRONMENT

The second quarter was particularly shaped by the global spread of COVID-19. The economic uncertainties in connection with the pandemic and the measures introduced by governments to mitigate it have led to a global economic crisis. In its current "World Economic Outlook" for full year 2020, the International Monetary Fund (IMF) forecast global growth of –4.9% – 1.9 percentage points below the April 2020 World Economic Outlook forecast. The COVID-19 pandemic has had a more negative impact on economic activity overall in the first half of 2020 than anticipated. The IMF stated that the recovery is also projected to be more gradual than previously forecast.

According to the German Federal Statistical Office, gross domestic product in Germany fell by 9.7% in Germany in the second quarter compared to the same quarter of the previous year when adjusted for price, seasonal and calendar effects. Compared to the first quarter of 2020, it fell by 7.7 percentage points. After the peak of the speed of spread was passed in Germany during the second quarter and restrictions were loosened and targeted political countermeasures to support the economy introduced, the business climate recovered slightly at the end of the second quarter. The ifo Business Climate Index increased to 86.2 points in June following 79.7 points in May. Full recovery of the German economy will, however, take some time. The Bundesverband der Deutschen Industrie (BDI) in fact thinks that the recovery will extend until well into 2022.

The varied course of the pandemic in different countries creates uncertainties that are difficult to assess with regard to the economic situation and the KAP companies' sales prospects in their respective foreign markets. Overall, despite regional differences, there was a strong economic downturn globally in the second quarter. In Europe, although the recession bottomed out in April, economic output shrank significantly overall in the second quarter compared to the first quarter. In many emerging markets and developing countries, the pandemic significantly worsened during the second quarter. The situation also further intensified in the USA. Other major economies, such as Japan, India, Brazil and Russia, were significantly affected by the COVID-19 pandemic. However, in China the recovery started somewhat earlier, meaning that economic output there grew slightly in the second quarter compared to the previous year. According to the current calculations of the Institute for the World Economy (IfW), global economic activity fell by almost 10% in the first half of 2020 due to the COVID-19 pandemic. The ongoing crisis is still strongly impacting global trade, consumption behaviour, consumer behaviour, the labour market and financial markets.

DEVELOPMENT OF IMPORTANT CUSTOMER SECTORS

The KAP Group's segment companies are active 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. In addition, some segment companies are highly dependent on the automotive sector, which is currently under even more pressure than previously expected due to COVID-19. The general economic situation and the development of industrial production are key for the development of the segments and the segment companies. According to the BDI's calculations, production in the manufacturing sector in the second quarter of 2020 fell by 16.1% compared to the same period of the previous year when adjusted for seasonal and calendar effects. The construction industry saw a decrease of 3.9% and the production of consumer goods fell by 10.1%. The decrease in intermediate consumer goods was even larger (16.6%). The most significant drop was in capital goods, which decreased by 24.9%.

Global automotive markets dropped sharply in the first half of 2020 due to the COVID-19 pandemic, with demand for cars down 28.1% compared to the previous year. According to the German Association of the Automotive Industry (VDA) around 40% fewer vehicles were newly registered in Europe from January to June. Germany saw a drop of 35%. According to the VDA, car production in fact fell by 40%. In particular the Asian market's car business helped to ensure that the global slump, particularly in the second quarter of 2020, was not even more severe. The Chinese market closed the first half of the year down 23%. However, the months of May and June saw positive figures compared to the previous year again in the Chinese market.

BUSINESS PERFORMANCE

The second quarter of 2020 was significantly weaker compared to the previous year as a result of significant decreases in sales caused by COVID-19 and the temporary production shutdowns thus necessary in the particularly hard-hit segments of the KAP Group. Business development was affected the most in the engineered products, precision components and surface technologies segments because these are highly dependent on the automotive market and have faced a sharp drop in customer demand. By contrast, the flexible films segment saw an increase in customer demand in connection with the COVID-19 pandemic, e.g. in hygiene applications. No significant impact from COVID-19 was reported in the it/services segment in the reporting period. As a result of the diversification of the segment strategy, the COVID-19 pandemic's impact on the segment companies varied greatly and was thus somewhat cushioned for the KAP Group.

Due to the global COVID-19 pandemic and the associated changes in the market, the need for an impairment test under IAS 36 may arise in the Group. This may then lead to impairment losses. However, because no reliable general data or approved plans at segment and company level currently exist, a test cannot be carried out conclusively at the end of the first half of the year, and one is planned for the 2020 annual financial statements. At the end of the first half of the year, adjusted EBITDA, which is our key performance indicator for earnings, was €17.6 million and thus €0.8 million below the level as the previous year (previous year: €18.4 million). The adjusted EBITDA margin was thus 10.3%, making it 1.1 percentage points higher than the previous year's figure (previous year: 9.2%).

In response to the COVID-19 pandemic, 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 the USA and one site in Sweden. 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. To date, six employees in the KAP Group have been infected with COVID-19.

FINANCIAL PERFORMANCE OF THE KAP GROUP

KAP Group

		H1 | 2020	H1 | 2019	Change in %
Revenue	€ millions	170.3	199.5	–14.6
EBITDA	€ millions	18.3	16.9	8.3
Adjustments	€ millions	–0.7	1.5	n. m.
Adjusted EBITDA	€ millions	17.6	18.4	–4.3
Adjusted EBITDA margin	%	10.3	9.2	12.0
Investments	€ millions	10.3	7.7	33.8
Employees as of 30 June		2,701	2,923	–7.6

In the first half of 2020, KAP generated revenue of €170.3 million – a decrease of 14.6% compared to the previous year (previous year: €199.5 million). As previously explained, this is primarily due to the negative impact of the COVID-19 pandemic.

The cost of materials fell by 22.6% to €84.8 million. The cost of materials ratio decreased by 3.5 percentage points to 51.2%.

Personnel expenses in the first half of the year totalled €50.8 million and were thus 1.4% below the level of the previous year (previous year: €51.5 million). The decrease reflects not only the ongoing restructuring in the engineered products segment but also the impact of the COVID-19 pandemic, which has necessitated the use of reduced working hours and personnel cuts in the KAP Group's severely affected segment companies. In relation to total performance, personnel expenses increased by 5 percentage points, particularly driven by expenses for severance payments in the engineered products segment. The number of employees as of 30 June 2020 fell by 7.6% to 2,701 (previous year: 2,923).

Other operating income was €15.0 million (previous year: €6.9 million) and was thus 118.8% above the previous year's level. The reason for the rise was, in particular, an insurance payment of €8.8 million for the fire damage that occurred at the Heinsdorfergrund site in 2019. Other operating expenses fell by 9.3% to €26.4 million.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) of €17.5 million were normalised by an amount totalling €–0.7 million for the effects of insured losses in 2019, restructuring and severance payment costs and transaction-related advice fees. At €17.6 million, adjusted EBITDA was €0.8 million down on the previous year's level of €18.4 million. The adjusted EBITDA margin was thus 10.3%, making it 1.1 percentage points higher than the previous year's figure (previous year: 9.2%).

Depreciation, amortisation and impairments fell by 29.1% to €14.1 million (previous year: €19.9 million).

The operating result (EBIT) was €4.2 million in the reporting period (previous year: €–3.1 million). The result before income taxes (EBT) increased to €0.5 million (previous year: €–5.5 million). Actual tax expense increased to €2.3 million (previous year: €–2.2 million). The consolidated annual result improved from €–3.4 million to €–1.8 million.

ENGINEERED PRODUCTS SEGMENT DEVELOPMENT

engineered products

		H1 | 2020	H1 | 2019[1]	Change in %
Revenue	€ millions	67.0	81.9	–18.2
EBITDA	€ millions	–6.6	3.0	n. m.
Adjustments	€ millions	11.1	0.8	>100.0
Adjusted EBITDA	€ millions	4.5	3.8	18.4
Adjusted EBITDA margin	%	6.7	4.7	42.6
Investments	€ millions	0.5	1.5	–66.7
Employees		893	1,018	–12.3

[1] Adjusted due to error correction.

The **engineered products** segment was severely affected by the effects of the COVID-19 pandemic in the first half of the year. In the reporting period, revenue in the engineered products segment decreased by 18.2% to €67.0 million (previous year: €81.9 million). In particular, the temporary production shutdowns in China, India and the USA had a negative impact. 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. In response to the COVID-19 pandemic, the KAP Group rapidly took effective measures in this segment, such as using up remaining holiday days and use of working time accounts.

EBITDA fell to €–6.6 million (previous year: €3.0 million) and the EBITDA margin thus decreased by 6.2 percentage points to –9.9%. Adjusted EBITDA increased by 18.4% to €4.5 million (previous year: €3.8 million). The adjusted special items and non-recurring effects, which total €11.1 million, particularly comprise non-cash write-downs of inventories, severance payments and restructuring costs. At 6.7%, the adjusted EBITDA margin was 2.0 percentage points above the previous year's level (previous year: 4.7%).

KAP AG systematically continued the planned extensive transformation of the engineered products segment for a sustainable improvement in profitability in the first half of the year despite the COVID-19 pandemic. Production at the site in Fulda will end completely in November in accordance with current planning. The partial closure of the site in Jilemnice in the Czech Republic is to take place by October 2020. The expenses associated with the reorganisation measures will continue to affect the Group’s development in the second half of 2020.

Overall, investments in the engineered products segment decreased by 66.7% to around €0.5 million (previous year: €1.5 million). KAP invested the majority of this in the replacement of machinery in the first half of the year. The sites in Hessisch Lichtenau and Portugal in particular were the regional focus of our investment activities.

As at 30 June 2020, 893 people were employed in the segment (previous year: 1,018), which is 12.3% fewer than at the same reporting date of the previous year. Due to COVID-19, employees had to be made redundant, in particular at the site in the USA.

FLEXIBLE FILMS SEGMENT DEVELOPMENT

flexible films

		H1 | 2020	H1 | 2019	Change in %
Revenue	€ millions	50.9	48.3	5.4
EBITDA	€ millions	8.1	5.8	39.7
EBITDA margin	%	15.9	12.1	31.4
Investments	€ millions	1.0	1.1	–9.1
Employees		320	325	–1.5

In the **flexible films** segment, the effects of the pandemic in the first half of the year were only partially felt at sales level thanks to the segment's broad diversification and high flexibility. Revenue increased by 5.4% to €50.9 million (previous year: €48.3 million). The decrease in sales in the automotive business areas of flexible films due to COVID-19 were more than offset by an increase in sales in other areas of the segment and the creation of new sales opportunities. The collapse of former value chains in the field of protective clothing in medical applications offered flexible films new sales opportunities that the segment has very successfully made use of. The "construction applications and swimming pool liners" business areas were only temporarily affected by the pandemic in the reporting period, without there being any overall loss of revenue. Falls in revenue in the areas of "projection screens and event floor coverings" led to a coronavirus countermeasure for a very limited period of time in the short term in the form of temporary reduced working hours at a site in Sweden. However, it was possible to quickly absorb the spare capacity through the manufacture of pool liners and through opening up new markets.

EBITDA increased by 39.7% to €8.1 million (previous year: €5.8 million). This development resulted from a significant improvement in the profit margin in this segment due to the increased premium product share and moderate commodity prices. The EBITDA margin thus increased by 3.8 percentage points to 15.9% (previous year: 12.1%).

The segment companies invested €1.0 million during the reporting period, meaning that investment spending was at approximately the same level as the previous year (previous year: €1.1 million).

The number of employees who were employed in the segment as of 30 June 2020 fell only slightly compared to the previous year to 320 (previous year: 325).

SURFACE TECHNOLOGIES SEGMENT DEVELOPMENT

surface technologies

		H1 | 2020	H1 | 2019 [1]	Change in %
Revenue	€ millions	25.2	34.4	–26.7
Adjusted EBITDA	€ millions	3.4	5.8	–41.4
Adjusted EBITDA margin	%	13.5	16.9	–20.1
Investments	€ millions	6.4	3.1	>100.0
Employees		743	791	–6.1

[1] Adjusted due to error correction.

In the **surface technologies** segment, revenue decreased significantly by 26.7% to €25.2 million in the first half of 2020 (previous year: €34.4 million). This is largely due to the significant decrease in demand in connection with the COVID-19 pandemic, as the segment is mainly active in the automotive sector.

Thanks to measures rapidly taken, such as reduced working hours, the reduction of weekend shifts and the reduction of production capacity utilisation, the segment was able to significantly cut personnel costs in the first half of the year. Non-recurring effects totalling €5.6 million meant EBITDA increased by more than 100% to €10.8 million (previous year: €5.2 million). Adjusted EBITDA was €3.4 million (previous year: €5.8 million). The adjusted EBITDA margin fell to 13.5% and was thus 3.4 percentage points lower than the previous year's level (previous year: 16.9%). The result was adjusted for non-recurring effects in connection with the fire damage in 2019, which comprise an insurance settlement of €8.8 million, one-off expenses of €1.1 million that arose due to the business interruption in connection with the fire damage and further expenses of €0.4 million in connection with this.

The investment volume was €6.4 million in the reporting period and thus more than doubled compared to the previous year (previous year: €3.1 million). In addition to investments for rectifying the fire damage, the investments particularly comprised a new zinc nickel plant at the site in Poland.

As of 30 June 2020, 781 people were employed in the segment, which was 12.2% fewer than as of the end of the same period of the previous year (previous year: 876). The reduction was necessary because revenue decreased as a result of COVID-19.

PRECISION COMPONENTS SEGMENT DEVELOPMENT

precision components

		H1 | 2020	H1 | 2019	Change in %
Revenue	€ millions	18.6	26.7	–30.3
EBITDA	€ millions	0.1	3.2	–96.9
EBITDA margin	%	0.5	12.1	–95.9
Investments	€ millions	1.8	0.5	>100.0
Employees		593	637	–6.9

In the first half of 2020, revenue in the **precision components** segment decreased significantly by 30.3% to €18.6 million (previous year: €26.7 million). The first three months of the year were shaped by, among other factors, the establishment of a new segment organisation (particularly in sales), the intensification of sales activities and the definition of sales channels. In addition, COVID-19 was a decisive factor for the segment's development in the first half of the year because more than 90% of the segment's deliveries involve the global automotive sector. The enormous impact of the COVID-19 pandemic was limited as far as possible by means of temporary production shutdowns and reduced working hours.

EBITDA fell accordingly by €3.1 million to €0.1 million (previous year: €3.2 million). The EBITDA margin fell by 11.6 percentage points to 0.5% (previous year: 12.1%).

In the first half of the year, the investment volume came to €1.8 million (previous year: €0.6 million) and thus more than tripled. At around €1.1 million, approximately 60% of this was accounted for by replacement investments. Around €0.7 million was invested for the extension of production capacity.

The number of employees fell to 593 as of 30 June 2020 and was thus 6.9% below the previous year's level (previous year: 637). The reduction was necessary because revenue decreased as a result of COVID-19.

IT/SERVICES SEGMENT DEVELOPMENT

it/services

		H1 | 2020	H1 | 2019	Change in %
Revenue	€ millions	10.6	10.3	2.9
EBITDA	€ millions	1.8	1.3	38.5
EBITDA margin	%	17.2	12.5	37.6
Investments	€ millions	0.3	1.0	–70.0
Employees		115	117	–1.7

Revenue in the **it/services** segment increased by 2.9% to €10.6 million in the first half of 2020 (previous year: €10.3 million). This positive development is due to the accelerated trend towards digitalisation, the sale of software subscriptions and newly awarded projects. Furthermore, the segment was awarded a major project in Austria in the field of data analytics, which will be implemented during the year. There were no significant COVID-19 effects on business performance in the reporting period because business operations continued without restriction as a result of relevant measures being taken, e.g. through people working from home and switching to online marketing and sales. Moreover, customers in this segment are diversified across many sectors. General uncertainty among customers and resulting postponements of IT projects could, however, impact the operating business in the second half of the year.

EBITDA increased to €1.8 million (previous year: €1.3 million). The EBITDA margin thus increased by 4.7 percentage points to 17.2% (previous year: 12.5%). The significant improvement in the operating profit margin resulted from successfully implemented measures to increase efficiency and the further margin improvement in high-revenue areas.

Overall, the investment volume decreased by 70.5% to €0.3 million (previous year: €1.0 million). The decrease in investments is particularly due to the fact that significant investment was made in the computer centre in the previous year.

As of 30 June 2020, the segment companies employed 115 people (previous year: 117).

CASH FLOWS

Selected key indicators on cash flows

in € millions	H1 | 2020	H1 | 2019	Change in %
Cash flow from operating activities	22.1	10.8	>100.0
Cash flow from investing activities	–9.8	–7.3	–34.2
Cash flow from financing activities	39.2	–8.1	n.m.
Net change in cash and cash equivalents	51.5	–4.6	n.m.
Effect of changes in foreign exchange rates and consolidated group on cash and cash equivalents	–0.1	0.0	n.m.
Cash and cash equivalents at end of period	56.4	7.1	>100.0

The cash flow from operating activities in the first six months of the 2020 financial year increased by >100% to €22.1 million (previous year: €10.8 million). The rise resulted from smaller changes in inventories and receivables compared to the same period of the previous year.

The cash flow from investing activities resulted in a cash outflow of €9.8 million (previous year: €7.3 million). This increase is due to the investments as a result of fire damage and hail damage in 2019.

Cash flow from financing activities in the first half of the year amounted to €39.2 million (previous year: €8.1 million). There is currently no need to renew existing loan agreements.

FINANCIAL POSITION

The KAP Group's total assets totalled €391.3 million as of 30 June 2020 and were thus €44.7 million above the 31 December 2019 level of €346.6 million.

On the assets side, non-current assets fell by €14.4 million to €194.0 million (31/12/2019: €208.4 million). Intangible assets fell by €2.3 million to €33.1 million (31/12/2019: €35.4 million). Property, plant and equipment fell by €9.1 million to €152.8 million (31/12/2019: €161.9 million). Investment properties fell by €2.9 million to €1.5 million (31/12/2019: €4.4 million). The change in these two items was mainly due to reclassifications to the “properties held for sale” item. At €5.4 million, deferred tax assets remained the same compared to 31 December 2019 (31/12/2019: €5.4 million).

Current assets rose by €52.0 million to €190.2 million (31/12/2019: €138.3 million). This is primarily due to an increase in cash and cash equivalents by €51.4 million to €56.5 million as a result of drawing down a syndicated loan (31/12/2019: €5.1 million). Furthermore, other receivables and assets increased by €5.4 million to €17.5 million (31/12/2019: €12.1 million). Inventories decreased by €1.6 million and trade receivables by €3.2 million compared to the end of 2019.

On the liabilities and equity side, equity fell by €4.5 million to €156.5 million (31/12/2019: €161.0 million). Non-current liabilities increased by €30.2 million to €137.0 million (31/12/2019: €106.8 million). This was primarily due to the increase in non-current financial liabilities, which, particularly due to the drawdown of a syndicated loan, increased by €31.6 million to €109.7 million (31/12/2019: €78.1 million). Deferred tax liabilities amounted to €7.9 million (31/12/2019: €8.6 million).

Current liabilities increased by €19.0 million to €97.8 million (31/12/2019: €78.8 million). Particularly as a result of higher provisions for complaints, guarantees and warranties, other provisions increased by €6.5 million to €29.3 million (31/12/2019: €22.8 million). Current financial liabilities increased largely due to the allocation to provisions in the course of restructuring the EP segment, rising by €7.3 million to €23.3 million (31/12/2019: €15.9 million). Trade payables increased by €3.6 million to €27.3 million (31/12/2019: €23.8 million). Other liabilities increased by €0.4 million to €10.1 million (31/12/2019: €9.7 million).

OPPORTUNITIES AND RISKS

A description of the major risks and opportunities and the principles of the KAP Group risk management system can be found in the Group management report in the published 2019 Annual Report from page 72 onwards. The risks specified there concerning the development of the macroeconomic environment in some cases materialised due to the global impact of the COVID-19 pandemic and led to a decrease in the net result, which we countered by lowering our cost base, boosting our sales activities and taking measures to curb COVID-19. The statements made in the 2019 Annual Report regarding the rest of the risk and opportunity situation essentially still apply.

Due to the global COVID-19 pandemic and the associated changes in the market, the need for an impairment test under IAS 36 may arise in the Group. This may then lead to impairment losses. However, because no reliable general data or approved plans at segment and company level currently exist, a test cannot be carried out conclusively at the end of the first half of the year, and one is planned for the 2020 annual financial statements. Additional risks arise from the possibility that the COVID-19 pandemic may take an even more serious course, particularly in the case of a massive global second wave of infection that would lead to far-reaching lockdown measures again. That would mean that risks for the KAP Group that could significantly impair business development would be greater than currently assumed.

However, there are also opportunities in some segments. For example, the flexible films segment has been able to benefit from additional customer orders due to production stoppages by some competitors abroad and through opening up new markets. Moreover, restricted options for recreational activities among homeowners as a consequence of the pandemic mean KAP expects an increase in renovation and pool work in the next few years, which could increase demand in the areas of swimming pool liners and energy-efficient construction systems in this segment. In the event of a significantly earlier end to the COVID-19 pandemic and a quicker and more powerful economic recovery than previously forecast, additional opportunities for better sales performance or the acquisition of new shareholdings will arise for the KAP Group.

At the current time, the future course the COVID-19 pandemic will take in the sales and procurement markets important for KAP cannot yet be foreseen. The associated volatility of financial markets cannot currently be reliably assessed either, meaning that KAP presently anticipates higher financial risks.

Taking account of all the facts known, no individual risks that endanger the continuation of the KAP Group as a going concern are currently identifiable. This also applies to the overall view of all risks.

We are very closely monitoring current developments in connection with the COVID-19 pandemic involving significant risks that are presently very difficult to assess. We are continuously analysing and assessing the situation, both among our customers and among our suppliers, and are developing appropriate measures from this.

EVENTS AFTER REPORTING PERIOD

Caplast Kunststoffverarbeitungs GmbH signed a purchase agreement in July 2020 to acquire 78% of the shares in a company in the flexible films sector. Various mechanisms were agreed, meaning that closing is expected in Q1 2021. The company acquired expects revenue of around €5 million and above-average profitability in the 2020 financial year. As a result of the acquisition, we expect access to highly attractive niche markets where the segment is not currently represented. By strengthening the flexible film segment with superbly trained and highly motivated employees, with specialist knowledge of products and processes, and with customised and highly efficient plants, KAP AG is continuing on its growth course.

The process to sell the it/services segment was also initiated in the third quarter.

Aside from these, no other events of material importance occurred after the reporting period that affect the true and fair view of the operations, the results of operations, the position and the expected development of the company. Irrespective of this, we continuously analyse further business development in the respective segments, so that, depending on the assessments of economic opportunities and risks against the background of the poorly predictable effects of the future course of the coronavirus pandemic, we will take further countermeasures in some areas if necessary.

OUTLOOK

Assuming there is no currently unforeseeable worsening of the course of the COVID-19 pandemic and no corresponding negative impact for KAP AG, the Management Board expects total revenue between €300 and 330 million and adjusted EBITDA from €27 to 30 million for full year 2020.

CONSOLIDATED FINANCIAL STATEMENTS

DEVELOPMENT OF THE KAP GROUP IN H1 2020

CONSOLIDATED STATEMENT OF INCOME

FROM 1 JANUARY TO 30 JUNE 2020

in € thousands	2020	2019 [1]
Revenue	**170,333**	**199,484**
Change in inventories and other own work capitalised	–5,079	709
Total performance	**165,254**	**200,192**
Other operating income	15,022	6,867
Cost of materials	–84,795	–109,561
Personnel expenses	–50,767	–51,497
Amortisation and impairment of intangible assets and depreciation and impairment of property, plant and equipment and investment property	–14,124	–19,933
Other operating expenses	–26,428	–29,139
Operating result	**4,162**	**–3,070**
Interest result	–1,606	–1,969
Other financial result	–2,017	–495
Financial result	**–3,623**	**–2,463**
Earnings from continuing operations before income taxes	**539**	**–5,533**
Income taxes	–2,292	2,186
Earnings from continuing operations	**–1,752**	**–3,347**
Earnings from discontinued operations after taxes	–6	–30
Earnings after taxes	**–1,759**	**–3,378**
Result share of non-controlling interests	–345	–162
Earnings attributable to shareholders of KAP AG	**–2,103**	**–3,540**
Undiluted earnings per share (€)		
Earnings from continuing operations	–0.23	–0.45
Earnings from discontinued operations	0.00	0.00
	–0.23	**–0.45**
Diluted earnings per share (€)		
Earnings from continuing operations	–0.23	–0.45
Earnings from discontinued operations	0.00	0.00
	–0.23	**–0.45**

[1] Adjusted due to error correction.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS

FROM 1 JANUARY TO 30 JUNE 2020

in € thousands	2020	2019 [1]
Earnings after taxes	**–1,759**	**–3,378**
Unrealised gains/losses from currency translation	–2,746	690
Unrealised gains/losses from financial assets available for sale	–	–
Items which may be reclassified in the income statement in the future	**–2,746**	**691**
Other comprehensive income after taxes	**–2,746**	**691**
thereof result after taxes attributable to non-controlling interests	–	–7
thereof result after taxes attributable to shareholders of KAP AG	–2,746	697
Total comprehensive income	**–4,505**	**–2,687**
thereof total comprehensive income attributable to non-controlling interests	345	155
thereof attributable to shareholders of KAP AG	–4,850	–2,842

[1] Adjusted due to error correction.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 30 JUNE 2020

in € thousands	Note	30/06/2020	31/12/2019	30/06/2019 [1]
ASSETS				
ASSETS				
Non-current assets				
Intangible assets		33,145	35,417	39,756
Property, plant and equipment		152,767	161,904	175,998
Investment properties		1,469	4,368	4,523
Financial assets accounted for using the equity method		0	0	0
Other financial assets		1,255	1,296	1,330
Deferred tax assets		5,361	5,388	5,386
		193,997	**208,374**	**226,994**
Current assets				
Inventories		58,316	59,902	70,107
Trade receivables		55,711	58,950	69,720
Income tax refund claims		2,337	2,270	1,833
Other receivables and assets		17,484	12,063	6,062
Cash and cash equivalents		56,449	5,077	7,149
		190,297	**138,262**	**154,871**
Non-current assets held for sale and discontinued operations		**7,017**	**–**	**–**
		391,311	**346,636**	**381,865**

[1] Adjusted due to error correction.

in € thousands	Note	30/06/2020	31/12/2019	30/06/2019[1]
EQUITY AND LIABILITIES				
EQUITY AND LIABILITIES				
Equity and reserves				
Subscribed capital		20,177	20,177	20,177
Capital reserve		86,840	86,840	86,840
Reserves		–19,188	–16,442	–14,746
Net result		66,310	68,413	94,444
Equity attributable to shareholders of KAP AG		**154,138**	**158,988**	**186,714**
Non-controlling interests		2,361	2,017	2,695
		156,500	**161,005**	**189,409**
Non-current liabilities				
Provisions for pensions and similar obligations		19,422	19,900	17,767
Non-current financial liabilities		109,723	78,143	71,136
Deferred tax liabilities		7,857	8,550	9,195
Other non-current liabilities		31	221	349
		137,033	**106,815**	**98,447**
Current liabilities				
Other provisions		29,277	22,799	27,380
Current financial liabilities		23,249	15,930	25,539
Trade payables		27,340	23,774	28,703
Income tax liabilities		7,849	6,600	4,031
Other liabilities		10,064	9,712	8,356
		97,779	**78,816**	**94,009**
Liabilities in connection with discontinued operations		**–**	**–**	**–**
		391,311	**346,636**	**381,865**

[1] Adjusted due to error correction.

CONSOLIDATED STATEMENT OF CASH FLOWS

FROM 1 JANUARY TO 30 JUNE 2020

in € thousands	2020	2019
Earnings before interest and income taxes	**2,139**	**–6,112**
Depreciation, amortisation and impairment of non-current assets (offset against reversals of impairment losses)	14,122	19,933
Change in provisions	6,216	2,226
Other non-cash expenses and income	655	4,711
Gains/losses from the disposal of non-current assets	–190	–32
Cash flow from operating activities before changes in assets and liabilities	**22,943**	**20,726**
Changes in inventories, receivables and other assets not attributable to investing and financing activities	–1,750	–10,560
Changes in payables and other liabilities which are not attributable to investing and financing activities	4,058	4,334
Cash flow from operating activities before interest and income taxes	**25,251**	**14,500**
Interest paid and received	–1,312	–1,846
Income taxes paid and received	–1,846	–1,836
Cash flow from operating activities	**22,093**	**10,818**
Proceeds from disposals of property, plant and equipment (including investment property)	491	389
Investments in property, plant and equipment (including investment property)	–9,954	–7,377
Investments in intangible assets	–	–305
Proceeds from the disposal of financial assets	–335	45
Investments in financial assets	13	–2
Disbursements by granting loans	–1	–87
Cash flow from investing activities	**–9,785**	**–7,337**
Proceeds from capital increase	–	–
Cash inflow from borrowing	42,988	–
Disbursements for the repayment of financial liabilities	–3,780	–8,074
Cash flow from financing activities	**39,208**	**–8,074**
Net change in cash and cash equivalents	51,515	–4,593
Effect of changes in foreign exchange rates, consolidation group and valuation-related changes in cash and cash equivalents	–143	15
Cash and cash equivalents at beginning of period	5,077	11,727
Cash and cash equivalents at end of period	**56,449**	**7,149**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS OF 30 JUNE 2020

in € thousands	Subscribed capital	Capital reserve	Currency differences	Cash flow hedges	Financial assets available for sale
01/01/2019	**20,177**	**86,840**	**–20,566**	**–**	**–**
Error correction	–	–	–	–	–
01/01/2019	**20,177**	**86,840**	**–20,566**	**–**	**–**
Consolidated result	**–**	**–**	**–**	**–**	**–**
Other comprehensive income before taxes	–	–	697	–	–
Deferred taxes on other comprehensive income	–	–	–	–	–
Total comprehensive income	**–**	**–**	**697**	**–**	**–**
Capital increase	–	–	–	–	–
Capital decrease	–	–	–	–	–
Dividends paid to shareholders	–	–	–	–	–
Change in consolidation group	–	–	–	–	–
Other changes	–	–	–	–	–
30/06/2019	**20,177**	**86,840**	**–19,869**	**–**	**–**
01/01/2020	**20,177**	**86,840**	**–19,739**	**–**	**–**
Consolidated result	**–**	**–**	**–**	**–**	**–**
Other comprehensive income before taxes	–	–	–2,746	–	–
Deferred taxes on other comprehensive income	–	–	–	–	–
Total comprehensive income	**–**	**–**	**–2,746**	**–**	**–**
Capital increase	–	–	–	–	–
Capital decrease	–	–	–	–	–
Dividends paid to shareholders	–	–	–	–	–
Change in consolidation group	–	–	–	–	–
Other changes	–	–	–	–	–
30/06/2020	**20,177**	**86,840**	**–22,487**	**–**	**–**

Revenue reserves						
Actuarial gains/losses	Other	Total	Consolidated balance sheet result	Equity attributable to KAP shareholders	Non-controlling interests	Total equity
−5,247	**10,455**	**−15,358**	**97,598**	**189,256**	**2,400**	**191,656**
–	–	–	394	394	–	394
−5,247	**10,455**	**−15,358**	**97,992**	**189,650**	**2,400**	**192,050**
–	**–**	**–**	**−3,540**	**−3,540**	**162**	**−3,378**
–	–	697	–	697	−7	690
–	–	–	–	–	–	–
–	**–**	**697**	**−3,540**	**−2,843**	**155**	**−2,688**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	−84	−84	−8	−93	140	47
−5,247	**10,371**	**−14,746**	**94,444**	**186,714**	**2,695**	**189,409**
−7,073	**10,371**	**−16,442**	**68,413**	**158,989**	**2,017**	**161,005**
–	**–**	**–**	**−2,103**	**−2,103**	**345**	**−1,759**
–	–	−2,746	–	−2,746	–	−2,746
–	–	–	–	–	–	–
–	**–**	**−2,746**	**−2,103**	**−4,850**	**345**	**−4,505**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
−7,073	**10,371**	**−19,188**	**66,310**	**154,138**	**2,361**	**156,500**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL REMARKS

The KAP AG interim financial statements for the period ended 30 June 2020 have been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable in the EU member states. The interim report complies with the guidelines on interim reporting as set out in IAS 34 and is presented in condensed form.

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

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

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

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

2. CONSOLIDATED GROUP

The KAP AG interim financial statements for the period ended 30 June 2020 include all major domestic and foreign subsidiaries that are under the legal and/or actual control of KAP AG.

In addition to KAP AG, the consolidated group includes 31 German and 19 foreign companies.

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

3. CONSOLIDATION PRINCIPLES

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

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

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

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

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

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

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

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

4. CURRENCY TRANSLATION

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

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

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

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

In the case of consolidated companies that are not wholly owned by KAP AG, the differences resulting from currency translation, 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		
€1 =	2020	2019	30/06/2020	31/12/2019	30/06/2019
Belarusian ruble	2.5813	2.3924	2.7140	2.3686	2.3226
Chinese yuan	7.7439	7.6551	7.9357	7.8328	7.8250
Indian rupee	81.6964	79.0726	84.7210	80.1500	78.6517
Polish zloty	4.4142	4.2925	4.4620	4.2597	4.2504
Swedish krona	10.6619	10.5247	10.5018	10.4445	10.5518
Swiss franc	1.0641	1.1298	1.0656	1.0856	1.1098
South African rand	18.3436	16.0410	19.4414	15.7645	16.1518
Czech koruna	26.3483	25.6833	26.7990	25.4070	25.4370
Turkish lira	7.1565	6.3595	7.6827	6.6803	6.5750
Hungarian forint	345.3710	320.4420	356.2800	330.6100	323.7200
US dollar	1.1020	1.1297	1.1210	1.1228	1.1383

5. ACCOUNTING AND VALUATION PRINCIPLES

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

Fair value

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

Intangible assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Since the KAP Group applies the cost model, the right-of-use assets will in future be recognised at amortised cost less accumulated depreciation and impairment losses. The lease term is generally used as a basis for determining the depreciation. This does not apply if ownership of the leased asset is transferred to the KAP Group as the lessee through the Group exercising its purchase option or as a result of a contractual agreement. In this case, the economic life of the asset is used as basis for determining the depreciation.

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

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

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

Government grants

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

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

Investment properties

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

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

Impairment of non-current non-financial assets

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

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

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

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 recognised at fair value through other comprehensive income. Changes in fair value are recognised as gains or losses in other comprehensive income.

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

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

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

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

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

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

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

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

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

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

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

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

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

Derivatives are initially recognised on the settlement date. The fair value is used on the reporting date. Derivatives with positive fair values are recognised under other receivables and assets, derivatives with negative fair values are recognised under other non-current liabilities or other liabilities, depending on their term.

Non-current assets held for sale and discontinued operations

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

These non-current assets and/or disposal groups are recognised on the reporting date at the lower carrying amount and fair value less disposal costs. They are reported separately from other assets in the statement of financial position. Liabilities from non-current assets and disposal groups classified as held for sale are shown separately from other liabilities.

Provisions for pensions and similar obligations

Provisions for pensions are based on actuarial assessments at the end of each financial year. The obligations are calculated using the projected unit credit method. In addition to the pension entitlements already earned in previous periods, certain trend assumptions are taken into account in the calculation.

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

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

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

Other provisions

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

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

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

Share-based remuneration

The share-based remuneration involves a virtual stock option programme with cash settlement. A provision proportionate to the amount of the fair value of the payment obligation is recognised on the respective reporting date at the end of the year and any changes in the fair value are recognised through profit and loss. The fair value of the virtual stock options is determined using the Black-Scholes-Merton model.

Financial liabilities

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

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

Revenue recognition

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

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

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

The conclusion of a new contract with customers may result in contract acquisition costs. Since the term of contracts for which the contract acquisition costs are incurred and the corresponding payback period for these costs is one year or less, contract acquisition costs are not capitalised but recognised as an expense.

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

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

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

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

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

Earnings per share

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

Estimates

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

6. NEW ACCOUNTING STANDARDS

The KAP Group as a lessee applied the new IFRS 16 regulations for the first time from 1 January 2019, as described in the leasing section. In compliance with the transitional provisions, the previous year's figures have not been adjusted. Assets were recognised for the rights of use of the leased assets in the amount of €16,383 thousand, and a lease liability was recognised for these in the same amount.

The IFRS 16 regulations for accounting by the lessor have not changed significantly compared to the previous standard, IAS 17. The activities of the KAP Group as a lessor are deemed immaterial overall. No significant impact on the interim financial statements arises from these.

The weighted average incremental borrowing rate was around 2.2%. There is a difference between the expected value for the initial recognition of the right-of-use asset under IFRS 16 communicated in the consolidated financial statements for the period ended 31 December 2018 and the value finally determined. This difference is largely due to a revaluation of remuneration components that are included in the calculation of the lease payments. In the consolidated financial statements for the period ended 31 December 2018, remuneration components not yet to be taken into account for significant real estate rental agreements were taken into account for the preliminary estimation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The land and buildings at the Fulda site were reclassified as of 30 June 2020. No concrete negotiations about the sale are currently being held with a buyer.

This reclassification resulted in the following changes in the statement of financial position:

in € thousands	30/06/2020
Land and buildings	–4,105
Other equipment, plant and office equipment	–118
Advance payments and assets under construction	–44
Investment properties	–2,750
	–7,017
Non-current assets held for sale and discontinued operations	**7,017**

8. EQUITY

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.

9. LIABILITIES IN CONNECTION WITH DISCONTINUED OPERATIONS

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

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

10. RESULT OF DISCONTINUED OPERATIONS

The gains/losses from discontinued operations of €−30 thousand (previous year: €−60 thousand) relate to the decrease in contingent liabilities. We have made a commitment to the acquirer of the MVS Group, which was sold in the 2014 financial year, for any risks arising from warranties and price audits for revenue up to the date of the disposal of the shares. The amount is attributable to the shareholders of KAP AG.

11. EVENTS AFTER THE REPORTING DATE

Caplast Kunststoffverarbeitungs GmbH signed a purchase agreement in July 2020 to acquire 78% of the shares in a company in the flexible films sector. Various mechanisms were agreed, meaning that closing is expected in Q1 2021. The company acquired expects revenue of around €5 million and above-average productivity in the 2020 financial year. As a result of the acquisition, we expect access to highly attractive niche markets where the segment is not currently represented. By strengthening the flexible film segment with superbly trained and highly motivated employees, with specialist knowledge of products and processes, and with customised and highly efficient plants, KAP AG is continuing on its growth course.

The process to sell the it/services segment was also initiated in the third quarter.

Furthermore, there were no other significant events after the reporting date to report up to 21 September 2019 (the date of approval for publication by the Management Board).

12. CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

13. SEGMENT REPORTING

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

For reasons of transparency, since the 2018 financial year a distinction has been made between the **engineered products, flexible films, it/services, precision components** and **surface technologies** segments in the KAP Group. Since the 2019 financial year, GM Tec Industries Holding GmbH has been assigned to the **precision components** segment and KAP Surface Holding GmbH has been assigned to the **surface technologies** segment.

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

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

The reclassifications to non-current assets held for sale concern land and buildings at the Fulda site.

SEGMENT REPORTING BY BUSINESS AREA

in € thousands	engineered products	flexible films	surface technologies
01/01–30/06/2020			
Revenue	66,981	50,938	25,229
Segment result[1]	–6,637	8,101	10,796
Depreciation and amortisation	3,598	1,653	5,858
Operating result	–10,236	6,448	4,938
Investments[2]	467	1,009	6,359
Working capital	46,871	25,045	2,364
Employees as of 30 June	893	320	743
01/01–30/06/2019			
Revenue	81,946	48,295	34,437
Segment result[1]	3,005	5,847	5,199
Depreciation and amortisation	3,838	1,867	6,128
Operating result	–833	3,980	–5,826
Investments[2]	1,538	1,072	3,079
Working capital	63,862	24,825	5,604
Employees as of 30 June	1,018	325	791

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

[1] The segment result is defined as the segment EBITDA.
[2] Relates to intangible assets and property, plant and equipment.

14. SIGNIFICANT RELATED-PARTY TRANSACTIONS

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

in € thousands	2020	2019
Investees		
Goods and services provided to investees		
Interest income from loans granted	48	30
Receivables from investees		
Loans	1,018	1,041
Financial receivables	63	65
Liabilities to investees		
Financial liabilities	–	7

There are no new or altered business relationships.

precision components	it/services	Reconciliation	Consolidation	Group
18,647	10,581	–	–2,043	170,333
86	1,824	–2,723	6,840	18,286
1,976	513	403	123	14,124
–1,890	1,311	–3,126	6,717	4,162
1,792	284	370	–25	10,256
11,813	2,234	–1,515	–124	86,688
593	115	37	–	2,701
26,663	10,335	2	–2,194	199,484
3,238	1,289	–3,241	1,526	16,863
2,155	509	410	130	15,037
1,084	780	–3,651	1,396	–3,070
477	965	550	–	7,680
16,350	2,173	–1,529	–160	111,124
637	117	35	–	2,923

15. CONTINGENT ASSETS AND LIABILITIES

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

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

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

RESPONSIBILITY STATEMENT

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

Fulda, 21 September 2020

KAP AG
Executive Board

Eckehard Forberich
Member and Spokesman
of the Management Board

Dr Alexander Riedel
Chief Financial Officer

FINANCIAL CALENDAR

22/09/2020	Annual General Meeting
16/11/2020	Publication of the Q3 2020 interim report
16–18/11/2020	Analyst/investor conference as part of the Deutsches Eigenkapitalforum, Frankfurt am Main

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

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FORWARD-LOOKING STATEMENTS

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

ROUNDING

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

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