Suchergebnis

Name	Bereich	Information	V.-Datum
KP Holding GmbH & Co. KG Heiligenroth	Rechnungslegung/ Finanzberichte	Befreiender Konzernabschluss zum Geschäftsjahr vom 01.01.2021 bis zum 31.12.2021	24.08.2022

KP Holding GmbH & Co. KG

Heiligenroth

Befreiender Konzernabschluss zum Geschäftsjahr vom 01.01.2021 bis zum 31.12.2021

Kleopatra Holdings 2 S.C.A.

Luxemburg

Group Management Report Year ended December 31, 2021

Contents

General Remarks

This group management report describes the activities, risks and results of Kleopatra Holdings 2 S.C.A. Throughout this management report, the terms “Company”, “we”, “us”, “our”,“kp”, “the Group”, or “kpGroup” refer to the Kleopatra Holdings 2 S.C.A. and its consolidated subsidiaries.

(1) Important Disclaimer

This financial report includes forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will”, or “should” or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. The company cautions you that forward-looking statements are not guarantees of future performance and that the actual results of operations, financial condition and liquidity, and the development of the industry in which the company operates may differ materially from those made in or suggested by the forward-looking statements contained in this report.

Section A: Business and General Conditions

(1) Company and History

Company

We focus on providing sustainable protection of everyday needs, kp is a global leader in rigid and flexible packaging, specialty film solutions, serving the pharmaceutical, medical device, food, beverage and card markets, amongst others. With a broad and innovative portfolio of packaging and product films and services, we play an integral role in the customer value chain by safeguarding product integrity, assuring safety and consumer health, improving sustainability and protecting brand reputation. Founded in 1965 we have 31 plants in 18 countries and employs over 5.300 people committed to serving customers worldwide in more than 90 locations.

Equity Sponsor

Strategic Value Partners, LLC (“SVPGlobal”) is a deep-value investment firm which was established in 2001 by Victor Khosla, with assets of approximately $18 billion across a hedge fund strategy and private equity vehicles.

(2) Overview of Business Activities

Our Business

Within the markets we serve, we have one of the broadest product portfolios across a variety of polymers. Our manufacturing footprint across North America, South America, Europe and Asia Pacific creates a competitive advantage in serving customers locally, offering customized solutions while maintaining the highest production standards. Our deep material science capabilities makes us a leader in innovating and rethinking circular models for the industry and meet and exceed the unique requirements of our customers for highly technical applications.

We serve customers through two market-oriented segments: PHD - Pharma, Health & Protection, and Durables and FP - Food Packaging. Our core end-markets have varying but complementary growth drivers and are generally non-cyclical in nature. We benefit from the rising need for innovative and sustainable packaging solutions. In addition to end-market specific drivers, we expect to benefit from positive macro trends such as a growing middle class in emerging markets, the aging global population, increased spend on consumer and healthcare products and the increasing generic penetration.

Competition and Market Trends

We serve customers in stable, steady growth markets in Europe and North America and emerging growth markets in Central and Eastern Europe, Asia and South America. Our growth in these markets generally correlates to, among other things, economic conditions, overall demand in the market, our ability to take market share from our competitors, population growth and growth in consumer price indices. In these markets, we are competing with a number of manufacturers that produce similar types of packaging and alternative packaging solutions. Levels of competition, the ability of our competitors to address customer demands more effectively than us or the ability of our competitors to otherwise attract customers through competitive prices or other factors may affect our results of operations. While cost pressures in customized plastic films and food grade thermoformed trays make it difficult for small players to compete on high-volume products, small- and medium-sized competitors frequently focus on niche products for household chemicals, personal care products, food, or automotive retail products to gain a competitive advantage. Smaller players can differentiate themselves in these areas through value-added services such as shrink-sleeve labeling and custom design. We primarily compete with smaller players in our segments in Europe and the Americas. Margins in our more steady growth markets in Europe and North America are typically driven by a well-balanced mix between lower-volume products with higher margins and higher-volume products with lower margins.

Growth in emerging markets that are less mature, such as Asia (specifically, China and Thailand) and South America (specifically, Brazil) is characterized by an increasingly broad distribution of wealth, population growth, a reduction of trade and other barriers, an increased amount of retail and distribution infrastructure and growth in local manufacturing capabilities. Over the past several years the company has added capacity in our Asian and South American plants in response to this rising demand.

Our segments

The Company’s operations are organized into two reportable segments:

- PHD - Pharma, Health & Protection, and Durables and
- FP - Food Packaging

In Pharma, Health & Protection, and Durables segment, kp focuses on providing sustainable, value- added film solutions which improve everyday life. PHD segment is organized into three product lines: (i) Pharma; (ii) Health & Protection; and (iii) Durables. Focus growth areas within the division are Pharma as well as Health & Protection product lines driving positive mix contribution. Product lines include barrier rigid films, mono rigid films, rigid films for medical device packaging, packaging films for consumer health application, shrink sleeve films, credit card films, graphics and home, building and construction films, kp focuses on providing sustainable, value-added film solutions which improve daily life.

In Food Packaging segment, kp provides sustainable packaging solutions ensuring food safety, hygiene and increased shelf life. FP segment is organized into three product lines: (i) Protein; (ii) Food-to-Go; and (iii) Fruit & Produce. Products include mono-layer and multi-layer rigid films, flexible films, trays, and punnets based on a wide variety of polymers. The films and trays are used in the packaging of fresh and pre-prepared foods, including salads, pasta, meat, cheese, fruit and fish. Our films and trays are designed to provide heat resistance and specialized barrier properties to protect against moisture and oxygen and to improve the appearance, appeal and shelf life of packaged food products. The Company focuses on attractive and resilient end-markets with high barriers to entry to drive above-market growth and increase market share.

Management assesses the performance of the divisions based on the key performance indicators of net sales and adjusted EBITDA (Earnings Before Interest Taxes Depreciation and Amortization).

(3) General Economic Development

The global economic growth in 2022 is expected to be weaker than 2021 due to the new Omicron COVID-19 spread, rising energy prices and supply disruptions. According to the IMF’s World Economic Outlook (January 2022), global growth is projected to moderate from an estimated growth - 5,9% for 2021 to 4,4% growth in 2022.

Growth in Europe is expected to decrease from an annual estimated growth of 5,2% in 2021 to 3,9% in 2022. The German economy estimated to have grown at 2,7% in 2021 and is expected to grow at 3,8% in 2022. The estimated growth in United Kingdom for 2021 was 7,2% and is expected to grow at 4,7% in 2022. France’s economic growth is estimated at 6,7% in 2021 and is expected to grow at 3,5% in 2022.

The US economy is estimated to have grown at 5,6% in 2021 and is projected to grow at 4,0% in 2022. The estimated growth in South America for 2021 was 6,8% and is expected to decrease to the growth rate of 2,4% in 2022. The economy in Brazil estimated to have grown at 4,7% in 2021 and is expected to grow at 0,3% in 2022. Argentina's economy estimated to have grown at 10,0% in 2021 and is projected to grow at 3,0% in 2022.

Growth in Developing Asia (excluding Japan) is estimated to have grown at 7,2% in 2021 and is expected to grow at 5,9% in 2022. In 2021 China's economy is estimated to have grown at 8,1% and is projected to grow at 4,8% in 2022. The ASEAN economies estimated to have grown at 3,1% in 2021 and is projected to grow at 5,6% in 2022.

The company actively monitors the economic outlook in the regions in which we operate to assist in our near and long term planning.

(4) Sector Development

Our business further benefits from trends in our core Pharma, Health & Protection, and Durables and Food Packaging markets, particularly the sustainable product requirements across most packaging types. Our success in capitalizing on this growing demand is a function of our ability to anticipate changing consumer preferences, such as trends towards light weighting, sustainability, smaller, more affordable and convenient product sizes and smart and aesthetically-pleasing packaging.

While organized as two segments, we operate in a number of distinct end-markets with varying yet complementary growth drivers. Our end-markets are generally non-cyclical in nature, and include pharmaceuticals, medical devices, food and beverage, protein, food-to-go, fruit & produce, fresh dairy, bakery, batteries, gift cards, decorative flooring and furniture, specialty printing and other consumer and industrial product categories. Our geographic footprint and end-market diversification has led to increased resilience, improved stability and limited cyclicality in our business.

Packaged goods utilizing our primary base polymers have seen consistent and stable growth in our largest developed markets. PET growth continues to outpace PVC growth as a result of the industry migration towards recyclability. Within developing economies, demand for packaging products is expected to grow at higher rates as the middle class grows and overall consumption of related goods increases. In our core sectors, the outlooks based on 3rd party forecast volume growth in Food Packaging in the range of 1-2%, with lower growth in more established markets like Western Europe and North America and higher rates of 2-4% in Eastern Europe, Asia and South America. Pharma, Health & Protection, and Durables is projected to grow in the range of 3-5%, again with higher growth in emerging markets.

Section B: Result of Operations and Financial Position

(1) General

The following discussion provides an overview of business development for the financial year ended December 31, 2021 compared with the financial year ended December 31,2021. This information will be discussed in the context of some selected items from our financial statements. Please note that these consolidated financial statements as of December 31, 2021 were prepared in accordance with the International Financial Reporting Standards (IFRS), as they are to be applied within the EU. Information on the basis of consolidation can be found in the notes to the consolidated financial statements.

(2) Result of Operations

Overview of financial year ended December 31, 2021

kpGroup	Year ended December 31, 2021	Year ended December 31, 2020	
€ Mio. except where noted			% Variance
Net sales	1.946,4	1.792,3	8,6%
Gross Profit	288,3	379,0	(23,9%)
Adjusted EBITDA	230,7	290,6	(20,6%)
Adjusted EBITDA % of Net Sales	11,9%	16,2%	

Net sales were € 1.946,4 million for the financial year ended December 31,2021, an increase of € 154,2 million, or 9%, compared to € 1.792,3 million for the financial year ended December 31,2020. Excluding the impact of foreign currency translation, net sales were 11% higher. The increase was driven by price increases to pass through higher raw material costs partially offset by lower volumes.

Gross profit was € 288,3 million for financial year ended December 31, 2021, a decrease of € (90,7) million, or (24%), compared to € 379,0 million for the financial year ended December 31, 2020. Excluding the impact of foreign currency translation, gross profit decreased by (22%)

€ Mio. except where noted	Year ended December 31, 2021	Year ended December 31, 2020	Variance	% Variance
Net sales	€ 1.946,4	€ 1.7923	€ 154,2	8,6%
Cost of goods sold	(1.658,1)	(1.413,3)	(244,8)	17,3%
Gross profit	288,3	379,0	(90,7)	(23,9%)
Research and Development	(11,7)	(13,6)	2,0	(14,4%)
Selling expenses	(100,8)	(112,1)	11,4	(10,1%)
General & administrative expenses	(81,0)	(90,8)	9,8	(10,8%)
Other expense	(11,5)	(29,6)	18,1	(61,1%)
Share of profit of investments accounted for using the equity method	0.2	0.1	0.2	n.a.
Income (loss) from operations	83,6	132,9	(49,3)	(37,1%)
Total depreciation & amortization	125,4	126,6	(1,2)	(1,0%)
EBITDA	208,9	259,5	(50,6)	(19,5%)
Adjustments	21.7	31,1	(9,4)	-30,1%
Adjusted EBITDA	€ 230,7	€ 290,6	€ (59,9)	-20,6%

€ Mio. except where noted	Year ended December 31, 2021	Year ended December 31, 2020
	% of sales	% of sales
Net sales	100,0%	100,0%
Cost of goods sold	(85,2%)	(78,9%)
Gross profit	14,8%	21,1%
Research and Development	(0,6%)	(0,8%)
Selling expenses	(5,2%)	(6,3%)
General & administrative expenses	(4,2%)	(5,1%)
Other expense	(0,6%)	(1,7%)
Share of profit of investments accounted for using the equity method	0,0%	0,0%

€ Mio. except where noted	Year ended December 31, 2021	Year ended December 31, 2020
	% of sales	% of sales
Income (loss) from operations	4,3%	7,4%
Total depreciation & amortization	6,4%	7.1%
EBITDA	10,7%	14,5%
Adjustments	1,1%	1,7%
Adjusted EBITDA	11,9%	16,2%

Cost of goods sold -

Cost of goods sold includes, among other costs, the usage of resins and additives related to the manufacturing of film, rework, rework credit, semi-finished goods, trading goods, outside services, packaging, energy, production personnel, maintenance, freight, warehousing, depreciation and the change in finished goods inventory. The increase of € 244,8 million in cost of materials was largely driven by higher raw material prices.

Research and development -

Research and development expenses include personnel and other related expenses for the development of new products and improvement of existing ones. R&D expenses decreased € (2,0) million (14%) due to lower travel costs and research and development trial expenses compared to the prior year.

Selling expenses -

Selling expenses include, among other costs, personnel, commission, bad debt, depreciation and amortization. The year over year decrease in selling expenses of € (11,4) million or (10%) was driven by lower compensation incentive expenses.

General and administrative expenses -

General and administrative expenses include, among other costs, personnel, professional services, depreciation and other office costs. The year over year decrease of € (9,8) million or (11%) in general and administrative costs was primarily due to lower compensation incentive expenses.

Other income and expenses -

Other income and expense includes FX gains and losses, adjustments (restructuring, transaction, integration costs, etc.) and other items. The year over year decrease in other expense of € (18,1) million or (61%) was mainly driven by favourable variation of net foreign exchange operational gains, insurance reimbursement in the amount of € 1,5 million and a decrease in restructuring expenses as we continued control these expenses.

Adjusted EBITDA -

Adjusted EBITDA is calculated by deducting certain income and gains and by adding certain expenses from or to EBITDA that management considers not to be indicative of kp's operating performance. During the financial year ended December 31, 2021 these adjustments totaled € 21,7 million. Mainly related to personnel, financial and legal restructuring € (8,7) million,other expenses related to financial projects and other items € (13,2) million, strategic projects € (5,3) million. This was partially offset due to operational currency gains € 4,8 million.

Adjusted EBITDA decreased (21%) or € (59,9) million to € 230,7 million for the financial year ended December 31, 2021 compared to € 290,6 million for the financial year ended December 31, 2020.

(3) Development of the Segments

Net Sales	Year ended December 31, 2021	Year ended December 31, 2020	
€ Mio. except where noted			% Variance
Pharma, Health & Protection, and Durables	€ 1.004,1	€ 926,8	8,3%
Food Packaging	942,1	865,1	8,9%
Corporate/others	0,2	0,4	(55,9%)
kpGroup	€ 1.946,4	€ 1.792,3	8,6%

Pharma, Health & Protection, and Durables (PHD) -

Net sales were € 1.004,1 million for the financial year ended December 31, 2021, an increase of € 77,3 million, or 8%, compared to € 926,8 million for the financial year ended December 31, 2020. Excluding the impact of foreign currency translation, net sales increased by 12%. The increase was driven by price increases and higher volumes in Durables products which was partly offset by higher material costs and lower volumes in the Pharma and Health & Protection products due to lower demand and supply chain disruptions.

Food Packaging (FP) -

Net sales for Food Packaging were € 942,1 million for the financial year ended December 31, 2021, an increase of € 77,1 million, or 9%, compared to € 865,1 million for the financial year ended December 31, 2020. Excluding the impact of foreign currency translation, net sales increased by 11%. The increase in net sales was driven by price increases to pass through the higher raw material costs and higher organic sales in our Fruit & Produce and Food-To-Go products. These increases were offset by lower sale volumes in Protein in EMEA due to lower demand and supply chain disruptions at our customers (staff shortages, logistics interruptions).

Corporate -

Net sales were € 0,2 million for the financial year ended December 31, 2021, a decrease of € (0,2) million, compared to € 0,4 million for the financial year ended December 31, 2020. These sales are mainly other non-divisional revenues such as scrap sales.

Adjusted EBITDA	Year ended December 31,	Year ended December 31,	
€ Mio. except where noted	2021	2020	% Variance
Pharma, Health & Protection, and Durables	€ 159,1	€ 199,3	(20,2%)
Food Packaging	116,6	146,1	(20,2%)
Corporate/others	(45,0)	(54.8)	(17,8%)
kpGroup	€ 230,7	€ 290,6	-20,6%

Pharma, Health & Protection, and Durables (PHD) -

Adjusted EBITDA for PHD was € 159,1 million for the financial year ended December 31, 2021, a decrease of € (40,2) million, or (20%), compared to € 199,3 million in the financial year ended December 31, 2020. Excluding the impact of foreign currency translation, adjusted EBITDA decreased by (18%). The lower adjusted EBITDA is primarily due to the unfavourable impact from the delayed price pass through of significantly higher resin costs and other inflation as well as lower volumes. The unfavourable impacts were partially offset by net productivity, lower employee incentive expense and cost control initiatives. As a result, our adjusted EBITDA margin decreased by 566 basis points from 21,5% in the financial year ended December 31, 2020 to 15,8% in the financial year ended December 31, 2021.

Food Packaging (FP) -

Adjusted EBITDA for Food Packaging was € 116,6 million for the financial year ended December 31, 2021, a decrease of € (29,5) million, or (20%), compared to € 146,1 million in the financial year ended December 31, 2020. Excluding the impact of foreign currency translation, adjusted EBITDA decreased by (19%). The lower adjusted EBITDA is primarily due to the unfavourable impact from the delayed pass through of significantly higher resin costs and other inflation as well as lower volumes. The unfavourable impacts were partially offset by net productivity, lower employee incentive expense and cost control initiatives. As a result, our adjusted EBITDA margin decreased by 451 basis points from 16,9% in the financial year ended December 31, 2020 to 12,4% in the financial year ended December 31, 2021.

Corporate -

Adjusted EBITDA for Corporate/other was € (45,0) million for the financial year ended December 31, 2021, an increase of € 9,8 million compared to € (54,8) million in the financial year ended December 31, 2020. This improvement was primarily related to lower employee incentive expense and cost control initiatives.

(4) Liquidity and Capital Resources

	Year ended December 31,	
€ Mio.	2021	2020
Net cash provided by operating activities	€ 100,1	€ 186,5
Net cash used in investing activities	(59,9)	(71,5)
Net cash used in financing activities	(75,8)	(35,7)
Effect of exchange rate changes on cash	0,2	6,4
Net changes in cash	(35,4)	85,6
Balance at beginning of period	137,5	51,9
Balance at end of period	€ 102,1	€ 137,5

Cash provided by Operating Activities -

Net cash provided by operating activities decreased by € (86,3) million to a cash inflow of € 100,1 million for the financial year ended December 31, 2021, compared to an inflow of € 186,5 million in the financial year ended December 31, 2020.

The decrease in cash provided by operating activities compared to the prior year was primarily due to the unfavourable impact from the delayed pass through of the higher resin costs and other inflation and higher bonus payments during financial year ended December 31, 2021. These unfavourable impacts were partially offset by a significant decrease in working capital € (44,4) million as we continued to tightly control these items.

Cash used by Investing Activities -

Our net cash used in investing activities decreased by € (11,6) million, resulting in a cash outflow of € (59,9) million for the financial year ended December 31, 2021, compared to an outflow of € (71,5) million in the financial year ended December 31, 2020.

Cash used in Financing Activities -

Our net cash used in financing activities was € (75,8) million for the financial year ended December 31, 2021, compared to an outflow of € (35,7) million in the financial year ended December 31, 2020.

The outflow due to financing activities was due to the repayment of the Kleopatra Holdings 1 PIK-Toggle Note which was at Kleopatra Holdings 1 S.C.A. level, repayment of share premium to shareholder (PIK interest funding) and cash used in refinancing related costs. This outflows were partially offset by proceeds from refinancing.

Cash Positions and Liquidity -

Cash decreased by € 35,4 million over the prior December from € 137,5 million to € 102,1 million. In addition to cash on hand and operating cash flows, the company's principal source of liquidity is a € 150,0 million revolving credit facility, which as of December 31, 2021 was fully available.

(5) Asset Position

Asset and capital structure

Balance Sheet	At December 31, 2021	At December 31, 2020	% Change
€ Mio. except where noted			
Current Assets	€ 523,7	€ 474,6	10,4%
Non Current Assets	1.073,7	1.003,4	7,0%
Total Assets	1.597,4	1.478,0	8,1%
Current Liabilities	557,9	418,8	33,2%
Non Current Liabilities	2.055,4	1.572,7	30,7%
Total Liabilities	2.613,2	1.991,4	31,2%
Deficit	(1.015,8)	(513,5)	97,8%
Total Liabilities and Equity	€ 1.597,4	€ 1.478,0	8,1%

Total assets at December 31, 2021 increased by € 119,4 million to € 1.597,4 million compared to December 31, 2020. Current assets increased by € 49,1 million primarily related to increased value of inventories due to raw material price inflation. Non-current assets increased € 70,3 million to € 1.073,7 million driven by expansion projects in North America and Europe increasing property, plant and equipment € 17,4 million net of depreciation. Further, Right-of-use asset increased by € 13,9 million net of amortization due to more leases modeled in accordance with IFRS-16.

Total liabilities increased by € 621,8 million to € 2.613,2 million compared to December 31, 2020. Current liabilities increased by € 139,1 million, mainly due to increase of creditors in the amount of € 101,5 million due to raw material price inflation. Non-current liabilities increased by € 482,7 million mainly due to refinancing 2017 Senior Secured Term Loan and issuance of new Senior Secured and Unsecured Notes in FY2021.

(6) Contractual Obligations and Commercial Commitments

Information on contractual obligations and commercial commitments can be found in the notes. Information related to long-term debt was discussed in Note 24 and 28. Other long-term provisions including onerous contracts are discussed in Note 26.

Section C: Financial and non-financial Performance Indicators and other key Factors for Success

(1) Financial and non-financial Performance Indicators

Key Performance Indicators-

The group monitors several key financial performance indicators to track the performance of the business and guide management. These include:

- Net Sales - Net sales comprise gross revenue net of provisions for product returns, discount and rebate agreements, and freight charged to customers and after eliminating intercompany sales
- Adjusted EBITDA - Adjusted EBITDA is calculated by deducting certain income and gains and by adding certain expenses from or to EBITDA that management considers not to be indicative of kp's operating performance.

Key Performance Indicators	Year ended December 31, 2021	Year ended December 31, 2020	
€ Mio. except where noted			% Variance
Net Sales	1.946,4	1.792,3	8,6%
Adjusted EBITDA	230,7	290,6	(20,6%)

(2) Environmental Management and Health and Safety

General

Protecting the environment and the health and safety of our employees and communities is a fundamental mission of the Kloeckner Pentaplast Group. Over the past several years significant advances in safety within our plants have been achieved.

kpValues

Our Vision: Sustainable Protection of Everyday Needs

In order to achieve our vision - sustainable protection of everyday needs - we must use our core values and core behaviours in everything that that we do, to create a culture. With our core culture in place we will use this to achieve our strategic imperatives, to add value to our customers, create partnerships and be an employer of choice. Generating these goals our customers will endorse our strategic value proposition in becoming global leaders in recycled content products and high-barrier protective packaging, with the best talent in the industry to achieve best-in-class productivity for our customers.

Our Values:

- Safety: It’s in everything we do - not just at work, but at home too
- Teamwork: We all work together towards our common objectives, because a team will be more successful than one person working alone
- Sustainability: We are an environmentally and socially responsible organisation, delivering protective products to meet the needs of people today and for tomorrow

Health and Safety

kp is committed to protecting the health and safety of each employee as an overriding priority of the organization. To achieve our goal of continuously improving our safety performance, safety has been established as a key company performance indicator and a responsibility of all kp employees.

- Resources have been assigned to lead improvements in safety
- Measurements have been established to consistently monitor performance and identify areas for improvement
- Investments continue to be made in training and equipment to eliminate work-related injuries

We strive to continue in developing a world-class safety culture to achieve our goal of zero injuries.

Health, safety and environment (“HSE”) laws and regulations govern our facilities and our operations, including: (i) the storage, handling and treatment of hazardous substances and wastes; (ii) water discharges; (iii) air emissions; (iv) human health and safety; (v) the clean-up and remediation of contaminated facilities; and (vi) the sale and use of the products we manufacture. Many of our operations require permits and controls to monitor or prevent pollution. We have incurred, and will continue to incur, substantial on-going capital and operating expenditures to ensure compliance with current and future HSE laws and regulations, which tend to become more stringent over time. Our environmental management systems, which are certified to the ISO 14001 standard at certain of our facilities globally, are intended to ensure that we both comply with applicable environmental requirements and minimize environmental risk by promoting environmental protection activities and initiatives. We actively address legal and environmental compliance issues in connection with our operations and properties, and we believe that we have systems in place to ensure that environmental costs and liabilities will not have a material adverse impact on kp. Nevertheless, estimates of future environmental costs and liabilities are inherently imprecise, and the imposition of new or unanticipated costs or obligations could have a material adverse effect on our business, financial condition or results of operations.

Sustainability

Klockner Pentaplast (kp) is a manufacturer of plastic packaging and products, all driven by our company purpose to deliver our vision: “The sustainable protection of everyday needs”. Our experts create innovative films and trays that provide product safety, help avoid food waste, safeguard medication and medical devices, and protect the integrity of countless durable products.

We innovate, design and manufacture for sustainable solutions that our customers use to package and protect products in daily situations around the globe. And we understand our obligation and responsibility to champion a circular economy where plastics are a source of valuable raw material, operating a sustainable business for generations to come. This underpins our growth, builds upon our heritage and defines our culture.

We recognise the importance of operating as a responsible company and commit to maintain exemplary standards in relation to the welfare of our employees and protection of the environment. We understand that our company has an impact that goes beyond our operations.

We are committed to working with our customers, our suppliers and key stakeholders, including government and legislative organization, to ensure we meet our sustainability commitments.

Following a detailed materiality assessment, in February 2021, kp launched a new sustainability strategy “Investing in Better”. Grouped under three key objectives, via this new strategy the company has set itself ten ambitious, long-term and measurable targets.

Close the Loop:

which commits kp to using more recycled material, closing the packaging loop and taking every opportunity to make packaging recyclable.

- By the end of 2025, we will use at least 30% post-consumer recycled material in our packaging
- By the end of 2025, at least 30% of recycled material in our packaging will include ‘Tray2Tray™’ material
- By 2025, 100% of our packaging will be recyclable

Work Smarter:

which encompasses targets that focus on using less energy, cutting carbon emissions and ending landfill.

- By the end of 2025, we will increase energy efficiency by 17% against a 2019 baseline (by end 2025)
- By the end of 2025, we will reduce Scope 1&2 emissions by 50%, and by 2030, Scope 3 emissions by 20% per tonne of product sold, against a 2019 baseline
- By the end of 2022, we will send zero waste to landfill or incineration without energy recovery

Act Responsibly:

which builds on the cornerstone of kp culture of continuous improvement in the areas of employee engagement, safety, and enabling kp to become a more diverse and inclusive company.

- By the end of 2025, we will reduce our lost time accident rate to zero
- By the end of 2025, the percentage of women at management levels at kp will exceed 30%
- By the end of 2025, our employee engagement score will improve to over 80%
- By the end of 2022, 100% of kp plans will complete at least one impactful community project annually, doubling that by the end of 2025

At kp, we've also integrated our goals into our refinancing, which was the first of its kind in the US to incorporate an ESG-Ratchet Linked Term Loan. The ESG-Ratchet Linked Term Loan seeks to further enhance this commitment by linking performance to the following three Key Performance Indicators (KPIs):

- Use of post-consumer recycled materials: kp already outperforms the sector by using 22% of post-consumer recycled raw material input (the "PCR Target") and has made the necessary investments to achieve 30% by 2025
- Greenhouse gas emissions: Efforts to tackle climate change through a 50% reduction in Scope 1&2 Greenhouse Gas emissions (the "GHG Target") from a 2019 baseline by 2025
- Diversity and inclusion: Increasing diversity and inclusion by driving gender balance and bringing female representation in company management (the "Diversity Target") to 30% by 2025

In July 2021, kp released its 2020 Sustainability Report, detailing its progress and commitment to key sustainability initiatives. The report provides details of performance relating to topics that are material to its business and has been prepared in accordance with the Global Reporting Initiative (GRI) Standards.

Despite the disruption brought by COVID-19, our talented and committed colleagues stayed true to kp's values, and were able to contribute to Investing in Better, while ensuring they met and exceeded customer needs. Their excellent work is beginning to show in the numbers, too, as our CO_2 emissions fell 14% year on year, and we incorporated more than 120,000 tonnes of recycled PET (rPET) into our products.

Just this past year, kp strategically invested to expand the ability to handle recycled content in Germany, the UK and the USA, making a significant contribution to the circular economy. We have also seen meaningful reductions in our operational carbon emissions, and continued to focus on safety leadership across our global manufacturing footprint.

In 2021, the company was also gratified to be recognised by EcoVadis - the independent provider of global sustainability ratings for environmental, social, and ethical performance - with a Gold award, putting us in the top 3% of plastic product manufacturers assessed.

(3) Research and Development

Continued research and development activities with projects in innovation, rationalization, and automation, contribute to our leading position in production technology that allows us to produce quality films with calendering, extrusion, coating, and stretching processes.

kp's innovation approach is driven by "market pull" with the focus on developing new film solutions that respond to customer requirements. kp has strong partnerships with universities contributing to the development of new products and solutions with customers, suppliers and machine manufacturers, ensuring kp is on the front line of innovation.

kp has seven technology centers worldwide, with two located in Germany, one in Switzerland, one in Russia, one in the US, one in China and one in Spain. The centers have different focus areas in terms of market segments (Pharma, Health & Protection, and Durables or Food Packaging) and specialized competencies (e.g. formulation, calendering, extrusion and coating).

(4) Personnel Report

Personnel and Employees

The number of employees per region at the end of the period is as follows:

	At December 31, 2021	At December 31, 2020
Europe	3.867	3.990
Americas	1.134	1.080
Asia	309	321
Total kpGroup	5.310	5.391

Overall headcount decreased by 81 in financial year ended December 31, 2021.

The company remains committed to developing our personnel and sponsers training and other programs throughout the year. Besides training in the respective function or profession, foreign language programs as well as continuous process improvement programs are valued as being especially important to employee development.

Section D: Risk Report

(1) Risk Management in the kpGroup

The company has multiple processes designed to continually evaluate risks and assess the necessary actions to effectively respond to such risks. In addition, the company has established corporate governance structure to provide an internal environment that supports risk management.

The kpGroup is insured against risks in order to minimize the financial consequences of a possible loss.

(2) Risks and Opportunities

General Economic Opportunities and Risks

Across its applications, kp operates in markets with attractive growth prospects, kp is focused on growing its core business within developed markets but also expanding the reach into emerging markets, staying close to its customers and progressing with them into new geographies. The expansion into Australia and China are examples of how kp is successfully executing this strategy. Furthermore, kp added and continues to add capacity in the growing European and North American PET market and in the Pharma market in Latin America.

We primarily operate within the approximately $190 billion rigid plastic packaging segment of the wider packaging market, with complementary applications in attractive semi-rigid and flexible films for products such as shrink sleeve labels. Growth in the rigid plastic market is driven by numerous factors which include increasing demand for light weight, re-sealable, convenient and portable packaging. The expanded market for packaged food in retail outlets is also driving increased demand for on-the-go packaging solutions, highly decorative and eye-catching packaging. Finally, the focus on food and drug safety and sustainability, with demographic changes through an aging and urbanizing population, is creating additional demand for our products, which is further increasing the need for innovation and customization through more complex packaging applications on a globalscale.

Megatrends are fueling growing demand for rigid plastic film applications across the globe. Each megatrend has a favorable impact on all kp divisions, and a number of illustrative examples are included below:

- A growing and aging population together with the increasing awareness for health, hygiene and well-being is expected to drive a strong increase in demand for healthcare and pharmaceutical products, resulting in increased demand for blister packaging films. The growth in self-medication is driving increased demand for Over The Counter (OTC) drugs, which are increasingly packaged in blister packaging as it enables better differentiation on the shelf and facilitates the display of regulatory, dosage and other product information;
- Rising average income and a new emerging middle class further drive the trend towards convenience and premiumisation. The demand for pre-packed food and increasing brand awareness require ever more sophisticated packaging solutions based on, for example, Shrink Sleeve Labels that allow for better shelf visibility and brand positioning. Pad-less trays solutions like Zapora® offer visually improved packaging that enable brand building and strong product’s differentiation. Also, the growth in consumption and wealth generates higher demand for financial services and related products, including credit cards, loyalty cards, etc. - all of which require rigid plastic films. Similar growth in income drives growth in home and commercial construction reflecting positive on our flooring and furniture films;
- Customers’ need for security and safety is driving the increasing importance of food and health supply chain safety and integrity. Packaging solutions that use sophisticated rigid plastic films help address the need for transparency and tamper proof characteristics;
- Increasing focus on environmental issues and recyclability of materials represents an opportunity for advanced high value-add producers to further strengthen market positions. Our Tray2Tray® initiative is coming as the first and most holistic process to recycle trays in a significant proportion and open up new opportunities to explore circular packaging models and
- Minimizing food waste, land field for catering and water usage are predominant concerns in the growing middle class that drives their choice for high performing packaging solutions that do not compromise on product’s integrity: the shift to MAP (“Modified Atmosphere Packaging”) has created the need for new technologies among which Elite®, MonoSeal® are recognized brands driving retailers’ choice.

From an overall risk standpoint, the kpGroup has significant sales and operations in Europe, North and South America and Asia and any negative development in the economies of these regions is a risk to our financial performance.

On March 11, 2020, the World Health Organization declared the recent novel coronavirus (“COVID-19”) outbreak a pandemic. In response to the outbreak many jurisdictions, including those in which we have locations, have implemented measures to combat the outbreak, such as travel restrictions and shelter in place orders. We expect our operations in certain locations to be affected as the pandemic continues. We keep monitoring the situation carefully as it evolves to understand the potential impact on our people and our business. The extent to which COVID-19 may impact the Company’s operating results or financial condition will still depend on future developments, which cannot be predicted, including new information which may emerge concerning the severity of the virus and the actions to contain or treat its impact, among others. The impact of the pandemic and the corresponding actions has been taken in consideration in the preparation of the consolidated financial statements. However, if the duration of the COVID-19 pandemic is longer and the operational impact is greater than estimated, the judgments, assumptions and estimates will be updated and could result in different results in the future. We are taking all necessary steps to protect our people and mitigate the risk to our business.

It is also worth noting that kp, in its capacity as plastic converter, purchases plastic raw materials, mainly polymers. As a downstream user, kp is not responsible for the registration of active substances under REACH Regulation. Indeed, registration is done by our suppliers or their own suppliers which are companies in the chemical industry responsible for the registration of chemicals under REACH Regulation. Nonetheless, kp has always been committed to only purchasing REACH compliant/ registered raw materials. We are therefore working closely with our suppliers to ensure continuous compliance with EU REACH Regulation and UK REACH Regulation.

Operational Risks

The occurrence of any significant operational problems could have a negative impact on the company’s financial results. Our business depends on the continued operation of our manufacturing facilities and a continuous supply of raw materials. The operational risks can be categorized as risks due to the sourcing of raw materials (Sourcing Risk), risks from a lack of capacity to serve our customers changing needs (Capacity Risk) and risks due to regulatory and environmental concerns (Regulatory and Environment Risk).

Sourcing Risks -

If the availability of any of our raw materials is limited, we may be unable to produce some of our products in the quantities demanded by our customers, which could have an adverse effect on plant utilization and our sales of products requiring such raw materials, and could negatively impact our business, financial condition or results of operations. Continued availability of raw materials is mainly dependent on our supplier base, which is concentrated. In Western Europe, the five largest vinyl producers control over an estimated 80% of the vinyl market. In the PET market, the six largest producers in Western Europe have a combined estimated market share of approximately 80%, and in the United States the PET market has consolidated from seven to three PET producers. In some of our countries of operation, we depend on specific suppliers for certain raw materials. Facing these limitations and opportunities, acting proactively regarding volatile raw material markets is a significant factor for operational success. We continuously strive to improve our supply arrangements with new or current suppliers whenever possible in order to help meet our economic, quality, innovation, time to market and volume needs.

Capacity Risks -

As the global demand for vinyl, PET and other polymer film products is growing, we are evaluating growth and expansion in key markets to alleviate existing and anticipated manufacturing capacity constraints. Developing new manufacturing plants requires a substantial amount of time and extensive capital investment. We will continue to require capital expenditures to improve efficiencies in our manufacturing base by potentially consolidating and relocating facilities, as well as investing in programs and technology to consolidate our procurement, sales and marketing and back office functions. If we are unable to meet our capital expenditure plans, we may find it difficult to maintain or expand our manufacturing capacity, which may negatively impact our competitive position and ultimately, our net sales and profitability. Any failure to meet our capital expenditure plans may have a material adverse effect on our business, financial condition or results of operations. We constantly monitor the market needs in order to determine and make the appropriate investments necessary to implement our growth plan.

Regulatory and Environment Risk -

Our facilities and operations are subject to environmental and occupational health and safety requirements of the European Union, the United States and other countries and state and local jurisdictions, including those relating to discharges of substances into the air, water and land, the handling, storage and disposal of hazardous substances and wastes and the cleanup of properties affected by pollutants. Based on internal review and advice from independent consultants, we believe that we are currently in substantial compliance with applicable environmental and safety requirements. All of kp's manufacturing plans are ISO9001 certified any many others are certified to ISO 14001, OHSAS 18001 and ISO 50001. By 2024, we plan for all kp sites to be certified to ISO 14001 and ISO 50001.

PVC, one of our main raw materials for the production of rigid and flexible films, has attracted significant attention from environmental advocacy groups, NGOs and government regulators. In the past some EU regulators have sought to more aggressively regulate its use and disposal, for example through increased taxation. We continue to monitor PVC-related developments and actively participate in industry discussions and governmental dialogue. Historically there have been limited alternatives to PVC that match its unique functional properties, however, through kp's focus on sustainable innovation, in 2021 the company will launch the next generation of sustainable pharma packaging with kpNext® (Patent Pending).

We continue to research into new sustainable alternatives that are on the horizon, with the view to meet functionality and ensure stable supply of such materials, while achieving commercial viability. We continue to enhance our portfolio to include a wide range of sustainable products, including PET (Polyester) and recycled PET. We focus on meeting product protection needs as required by the value chain to reduce overall environmental impact and achieve complete sustainable solutions while improving product quality and efficiency.

As a follow on from the launch of the EU Plastics Strategy, in 2019, the European Parliament voted to approve an EU Single-Use Plastics Directive with member states having 2 years to implement into national law and regulations, making it effective in mid 2021.

The Directive has introduced the ban of select plastic products to include straws, stirrers, cutlery and plastic plates, as well as expanded polystyrene (EPS) foam products used to package food intended for immediate consumption.

kp produces a wide range of EPS containers and trays which can continue to be used until the ban's effective date on July 3, 2021, however in 2019 kp innovated and launched kp Infinity™, a fully recyclable alternative using expanded Polypropylene.

In addition, the Directive identifies several plastic products for consumption reduction targets to include food containers, defined as receptacles such as boxes, with or without a cover, used to contain food that:

- is intended for immediate consumption either on-the-spot or take-away;
- is typically consumed from the receptacle and
- is ready to be consumed without any further preparation, such as cooking, boiling or heating;
- including food containers used for fast food or other meal ready for immediate consumption.

France also approved in October 2021 a decree that prohibits the use of packaging for loose fruits and vegetables under 1,5 kg which is starting from January 1, 2022.

kp produces a limited amount of such food containers and continues to innovate to deliver additional sustainable solutions that are fully functional and recyclable.

kp is working on projects to increase the recycling of PET pots, tubs and trays in their kpTray2Tray™ initiative to help achieve closed loop solutions and reduce reliance on rPET bottle flake. Used PET trays are a valuable resource and if recycled can increase the stability of supply while removing reliance on virgin material, helping in resource efficiency and reducing environmental impact. Kp has set the goal of 30% of PCR material to come from Tray2Tray sources by the end of 2025.

kp has developed a comprehensive multi-year sustainable material strategy of all materials in our market sectors and packaging formats. We are simplifying our range of materials, focusing on using mono materials where possible, while still providing product protection and ramping up our recyclable product portfolio. Kp has also set a goal for 30% post-consumer recycled material to be used in packaging products by the end of 2025.

In January 2021, a new tax on unrecycled plastic will also come into effect in the European Union and will be levied by all EU member states. In addition, in April 2022, the United Kingdom is expected to introduce new taxes on plastic packaging that do not include at least 30% of recycled content while Italy and Spain have postponed the introduction of new taxes on virgin content used in plastic packaging to late 2022 early 2023. Pharmaceutical products are expected to be exempted from such new taxes. kp's leading position on recycled content limits the exposure to these taxes and where taxes will apply, kp will aim to pass these costs on to our customers.

kp continues to collaborate with the industry associations, government, value chain, local authorities, waste management, and recyclers to help the development and implementation of adequate disposal and recycling mechanisms, incentives and facilities. kp has also signed up for a number of voluntary multi-stakeholders groups in order to drive progress. Examples of these include the Ellen MacArthur Foundations Global Plastic Commitment, the EU Circular Plastic Alliance, CEFLEX, and the UK Plastic Pact.

Financial Risks

Our operations are exposed to various financial risks such as liquidity, currency, and interest rate risks, all of which could affect our net assets, financial position and results of operations. We use derivative financial instruments to reduce our exposure to these risks. Our financial risk management is coordinated by our group treasury department, which identifies, evaluates and hedges financial risks in close cooperation with our senior management and local subsidiaries.

Liquidity Risk -

Liquidity risk is the risk that we would become unable to meet its financial obligations when they fall due. The Company manages its liquidity risk and generates liquidity through cash provided from operating activities as well as through drawings on revolving credit facilities, both on group and local levels. Each week the operating subsidiaries provide our group treasury department with forecasts of their individual cash positions over the subsequent three-month period, split by currency-denomination. In addition, our group treasury department monitors the cash position on a daily basis. We seek to maintain sufficient liquidity reserves in the form of revolving credit facilities and to concentrate cash positions through efficient cash management structures such as zero balancing cash pools. The ability to use the principal financing facilities is conditioned on compliance with certain financial covenants and other restrictions included in the underlying credit facility agreements.

Foreign Exchange Risk -

Kleopatra Holdings 2 S.C.A.'s functional currency is the Euro and a significant portion of the Company's net sales and expenses are denominated in Euro. As a result of the operations in various countries, kpGroup generates a significant portion of sales and incurs a significant portion of expenses in currencies other than the Euro, primarily the US Dollar, but also the British Pound, Swiss Franc, Canadian Dollar, Russian Ruble, Thai Baht, Brazilian Real, Argentinian Peso, Turkish Lira, Polish Zloty, Australian Dollar and Chinese Yuan, among others.

Certain of the Company's debt obligations are denominated in US Dollar. Therefore, kpGroup's results are impacted by both transaction and translation currency effects. Transaction currency effects occur when the Company's subsidiaries incur costs or earn net sales in a currency different from their functional currency. When the Company is unable to match sales received in foreign currencies with costs paid in the same currency, kp's results of operations are potentially exposed to adverse as well as beneficial movements in foreign currency exchange rates.

The Company engages in only limited financial hedging of kpGroup's foreign exchange exposure since kpGroup tries to align the Company's net receivables with the Company's net payables in the form of a natural hedge at the local functional currency and legal entity level. kpGroup enters into forward exchange contracts, generally with terms of 180 days or less, to manage some of kp's foreign currency exposures. These exposures include net sales and anticipated purchase transactions, including foreign currency capital expenditures, forecasted to occur within 180 days. The kpGroup also seeks to manage the Company's exposure to exchange rate changes with respect to the Company's borrowings by borrowing in U.S. Dollars, Euros and in local currencies. kpGroup foreign exchange forward contracts are entered into with large financial institutions. These contracts are designated as either cash flow hedges or fair value hedges intended to offset the effect of exchange rate fluctuations on forecasted net sales or purchases of raw materials. The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in Accumulated Other Comprehensive Income/Loss and is subsequently reclassified into earnings in the period in which the hedged forecasted transaction affects earnings. Changes in the fair value of derivatives designated and qualifying as fair value hedges is recorded in earnings. As of December 31, 2021, the notional amounts of Group's outstanding contracts that are designated as cash flow and fair value hedges were approximately € 6,6 million. Based on the Company's analysis, a hypothetical adverse foreign exchange rate movement of 10% against the Company's contracts would not have a material impact on the fair value of these contracts. Please refer to note 16 of the financial statements.

The Company is exposed to currency risk in the translation exposure of foreign-currency-denominated equity invested in consolidated companies. Translation currency effects occur when the results of kp's subsidiaries outside the Euro zones as measured in their non-Euro currencies are translated in Euro using the exchange rates prevailing during the relevant period. For example, a stronger Euro will reduce the reported results of operations of the non-Euro businesses and conversely a weaker Euro will increase the reported results of operations of the non-Euro businesses. These translations could affect the comparability of Group results between financial periods or result in changes to the carrying value of Group assets, liabilities and stockholders' equity. These risks are not hedged. However, the currency composition of the Company's borrowings have been structured to reduce the risk of changes in foreign exchange rates. Currency exposure arising from the net assets of Group's foreign operations in US and in other non-Euro countries is managed to a certain extent through borrowings denominated in the relevant foreign currencies (such as the US Dollar, Australian Dollar, British Pound, Turkish Lira, Chinese Yuan and Brazilian Real).

Interest Rate Risk -

Our primary interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose kp to cash flow interest-rate risk.

Consolidated earnings depend on the interest rate on kp's floating rate financial liabilities. A change in the level of interest will alter the kpGroup's earnings.

Additional factors could arise that would affect equity due to the change in fair value of the kpGroup's outstanding liabilities in the context of interest cash flow hedge accounting. Borrowings under the 2021 Senior Secured USD Term Loan, the 2021 Senior Secured EUR Term Loan, and the 2021 revolving credit facility bear interest at floating rates Please refer note 24 of the financial statements. kpGroup has used interest rate derivatives (interest rate swaps) to hedge variable rate U.S. Dollar LIBOR and Euro LIBOR based borrowings from interest rate risk.

On January 2, 2020 the Company entered into an interest cap hedge for its variable rate senior secured term loans to better match the hedging instrument with prevailing market rates. Please refer to note 16. The cap rate of USD cap is 2,50%, the cap rate of the EUR cap is 0,50%. The interest rate caps expire on June 30, 2022. Please refer to note 16 of the financial statements.

To manage the interest rate risk exposure for the refinanced debt, KpGroup has entered on March 23, 2021 into another cap for USD 543,8 million and € 450,0 million that starts on June 30, 2022, and expires December 31, 2024. The cap rate of USD cap is 2,50%, and the cap rate of the EUR cap is 1,00 %. Please refer to note 16 of the financial statements.

(3) Corporate Governance, Compliance and Internal Control

Corporate governance

Kleopatra Holdings 2 S.C.A. is a Société en Commandite par Actions, a partnership limited by shares, organized and existing in accordance with the laws of the Grand Duchy of Luxembourg. Kleopatra Holdings 2 S.C.A. has issued both an unlimited liability management share and limited liability shares. The unlimited liability management share is held by Kleopatra Senior Holdings GP S.à r.l. as of October 22, 2020 when the former general partner and sole manager, Kleopatra Holdings GP S.A. transferred its management share to Kleopatra Senior Holdings GP S.à r.l.

Kleopatra Senior Holdings GP S.a r.l. is managed by a board of managers, consisting of six members. The board of managers has further established (i) and audit committee which deals with all material questions concerning the auditing and accounting policy of the Group and its financial controls and systems, as well as (ii) a remuneration committee that deals with all material questions related to the senior employees of the Group.

Compliance

The Group has the following compliance management structures:

- Compliance Officer and compliance-related reporting lines
- Code of Business Conduct and Ethics
- Anti-Bribery and Corruption Policy
- Disclosure Committee
- Ethics Hotline
- International Trade Guidelines

The Group is committed to maintaining the highest standards of business conduct and corporate governance practices. This is based upon our values, which we believe are critical to maintaining our integrity in the marketplace and running the business well. All employees at kp are committed to full compliance with these policies and principles.

Compliance Officer and compliance-related reporting lines

The Group has a Compliance Officer, who reports regularly to the Audit Committee and, as appropriate, to the Advisory Board, which is responsible for maintaining up-to-date compliance programs and oversight. All kp employees are responsible for adhering to such policies which are communicated through employee training and the company's Intranet. The German companies have appointed an external data protection officer. All German employees can contact the officer in case they have questions relating to the handling of their personal data.

Code of Business Conduct and Ethics

The Code of Business Conduct and Ethics is provided in the various languages in which kp has operations. The Code of Business Conduct and Ethics applies to each employee, officer and director of the company, who are expected to uphold its standards in their daily activities and take personal responsibility for compliance. Any violation will be subject to disciplinary action.

Anti-Bribery, Corruption and Gifts Policy

The comprehensive Anti-Bribery and Corruptions Policy provides for a zero-tolerance approach to anti-bribery, corruption and prohibited conduct. Additionally a separate policy and procedures on gifts and hospitality has been implemented. Third party due diligence procedures set forth the Group's enforcement approach to anti-bribery and corruption and provide a comprehensive questionnaire to be completed by many third parties with whom the Group does business.

Ethics Hotline

The kpEthicsHotline has been established to report violations of company policies and illegal or unethical activities. Employees can file a report by telephone using a toll-free number or filing a written report through the kp Intranet. The hotline is managed by a third party provider who confidentially communicates these reports to kp's Compliance Officer.

International Trade Guidelines

The Group has an International Trade Guideline policy and integrated controls within its SAP ERP system that screens business transactions in real time against prohibited parties and countries in accordance to the most updated sanctions and blacklisted party lists. Screening is done manually for companies that are not yet part of SAP.

Internal Control

The kpGroup's internal control system is designed to ensure that the accounting process complies with regulations. The Advisory Board of Directors, acting in many cases through its Audit Committee, oversees auditing, accounting, financial reporting and internal control functions of the group and issues recommendations to the management of the Group in this regard. The internal control system is a process, enacted by the relevant governing boards, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

(1) Reliability of financial reporting

(2) Compliance with applicable laws and regulations

(3) Effectiveness and efficiency of operations

The Company continues to assess that the segregation of duties within all functions is enacted to ensure a proper degree of control over transactions, such as the handling of cash and the security of assets.

Section E: Opportunities and Forecast Report

(1) General Economic Environment

According to the IMF's World Economic Outlook (January 2022), global growth is projected to a moderate 4,4% due to the new Omicron COVID-19 spread, rising energy prices and supply disruptions compared to estimated 5,9% growth in 2021. Overall we have planned for a recovery of economic growth in our 2022 budgets with improvements throughout the year. Beyond 2022, we do our planning based on a similar type of moderate expansion of the world economy. Hyper inflation of raw material costs, workforce shortages due to Brexit in UK and Northern Europe and supply chains disruptions of various critical raw materials have created headwinds in 2021 that is projected to smooth in 2022 and allow for more steady growth from second half of 2022.

The

Consolidated Financial Statements December 31, 2021

Registered office of the company:

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1855 Luxembourg

Grand Duchy of Luxembourg

Content

Consolidated Financial Statements

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kleopatra Holdings 2 S.C.A. and its subsidiaries (the "Group"), which comprise the Consolidated Statement of Financial Position as at December 31, 2021, and the Consolidated Statement of Income (Loss), Consolidated Statement of Comprehensive Income (Loss), Consolidated Statement of Changes in Shareholders' Deficit and Consolidated Statement of Cash Flows for the year then ended, and notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and of its consolidated financial performance and of its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Law of July 23, 2016 on the audit profession (Law of July 23, 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "réviseur d'entreprises agréé" for the Audit of the Consolidated Financial Statements" section of our report. We are also independent of the Group in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the Group management report but does not include the consolidated financial statements and our report of the "réviseur d'entreprises agréé" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is 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 Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the "réviseur d'entreprises agréé" for the Audit of the Consolidated Financial Statements

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 to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. 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.

As part of an audit in accordance with the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF, 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, 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 opinion. 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of 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 our report of the "réviseur d'entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease 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 represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

Report on Other Legal and Regulatory Requirements

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

March 31, 2022

For Deloitte Audit, Cabinet de révision agréé

Nick Tabone, Réviseur d'entreprises agréé, Partner

Consolidated Statements of Income (Loss)

(in thousands of Euros)

	Note	Year ended December 31, 2021	Year ended December 31, 2020
Net sales		€ 1.946.438	€ 1.792.261
Cost of goods sold	(8)	(1.658.122)	(1.413.290)
Gross profit		288.316	378.971
Research and development expenses	(8)	(11.672)	(13.637)
Selling expenses	(8)	(100.778)	(112.135)
General and administrative expenses	(8)	(81.008)	(90.773)
Other operating income	(10)	58.932	56.188
Other operating expenses	(10)	(70.441)	(85.791)
Share of profit of investments accounted for using the equity method	(22)	236	85
Operating income		83.585	132.908
Interest income		2.269	2.319
Interest expense	(11)	(123.090)	(92.713)
Currency gains (losses) on financing		(15.015)	25.120
Financing costs		(5.721)	(6.825)
Financial result		(141.557)	(72.099)
Profit (Loss) before income taxes		(57.972)	60.809
Income tax benefits	(12)	52.081	62.139
Net income (loss)		(5.891)	122.948
Attributable to:			
Shareholders of Kleopatra Holdings 2 S.C.A.		(6.907)	122.112

	Note	Year ended December 31, 2021	Year ended December 31, 2020
Non-controlling interests		1.016	836

Consolidated Statements of Comprehensive Income (Loss)

(in thousands of Euros)

	Note	Year ended December 31, 2021	Year ended December 31, 2020
Net income (loss)		€ (5.891)	€ 122.948
Items that will not be reclassified subsequently to the statement of operations			
Remeasurement of defined benefit plans	(25)	27.170	(4.089)
Deferred taxes		(490)	(86)
		26.680	(4.175)
Items that will be reclassified subsequently to the statement of operations			
Currency translation losses		(19.223)	(7.487)
Derivative financial instruments	(16)	726	710
Deferred taxes		(3.650)	483
		(22.147)	(6.294)
Total other comprehensive income (loss)		4.533	(10.469)
Total comprehensive income (loss)		(1.358)	112.479
Attributable to:			
Shareholders of Kleopatra Holdings 2 S.C.A.		(2.374)	111.643
Non-controlling interests		1.016	836

Consolidated Statements of Financial Position

(in thousands of Euros)

Assets	Note	December 31, 2021	December 31, 2020
Cash and cash equivalents	(13)	€ 102.127	€ 137.515
Restricted cash	(14)	796	292
Accounts receivable, net	(15)	113.570	110.711
Recoverable income taxes and prepayments		24.112	13.873
Inventories, net	(17)	217.674	159.171
Derivative financial instruments	(16)	3.333	3
Other current assets	(18)	62.089	52.991
Total current assets		523.701	474.556
Intangible assets - goodwill, net	(19)	183.188	183.188
Intangible assets - other, net	(19)	132.939	160.427
Property, plant and equipment, net	(20)	467.370	449.936
Right-of-use assets, net	(21)	89.190	75.251
Investments accounted for using the equity method	(22)	275	66
Deferred income tax assets	(31)	129.552	87.934
Derivative financial instruments	(16)	-	16
Pension plan asset surplus	(25)	57.340	31.398
Other non-current assets	(18)	13.859	15.199
Total non-current assets		1.073.713	1.003.415
Total assets		1.597.414	1.477.971

Liabilities and shareholders' equity (deficit)	Note	December 31, 2021	December 31, 2020
Accounts payable	(23)	€ 307.938	€ 206.391
Contract liabilities		1.771	1.795
Short-term debt	(24)	51.663	18.422
Income taxes payable		25.233	25.158
Provisions for other liabilities and charges	(26)	14.297	16.017
Lease liabilities	(27)	22.875	17.792
Derivative financial instruments	(16)	86	44
Other current liabilities	(28)	133.993	133.150
Total current liabilities		557.856	418.769
Long-term debt	(24)	1.916.164	1.426.039
Retirement benefit obligations	(25)	45.257	51.518
Other provisions	(26)	2.415	2.587
Deferred income tax liabilities	(31)	29.853	45.499
Lease liabilities	(27)	58.009	43.018

Liabilities and shareholders' equity (deficit)	Note	December 31, 2021	December 31, 2020
Other non-current liabilities	(28)	3.665	4.008
Total non-current liabilities		2.055.363	1.572.669
Subscribed capital	(29)	1.756	1.756
Additional paid-in capital	(29)/(30)	193.461	212.722
Negative merger reserve		(258.589)	(258.589)
Accumulated other comprehensive loss		(63.472)	(68.005)
Accumulated deficit		(892.649)	(405.538)
Deficit attributable to the Company's shareholders		(1.019.493)	(517.654)
Non-controlling interests		3.688	4.187
Total shareholders' equity (deficit)		(1.015.805)	(513.467)
Total liabilities and shareholders' equity (deficit)		1.597.414	1.477.971

Consolidated Statements of Changes in Shareholders' Deficit

(in thousands of Euros)

Attributable to the Company's shareholders

January 1, 2020 - December 31, 2020	Subscribed capital	Additional paid-in capital	Negative merger reserve	Accumulated other comprehensive loss	Accumulated deficit	Noncontrolling Interest	Total shareholders' deficit
Balance at January 1, 2020	€ 1.756	€ 211.306	€ (258.589)	€ (57.536)	€ (526.203)	€ 5.133	€ (626.133)
Reclassifications	-	3	-	-	553	-	561
Special reserve account/ Additional paid in capital	-	1.408	-	-	-	-	1.408
Other comprehensive loss	-	-	-	(10.469)	-	-	(10.469)
Dividends to non-controlling interests	-	-	-	-	-	(1.782)	(1.782)
Net income	-	-	-	-	122.112	836	122.948
Balance at December 31, 2020	1.756	212.722	(258.589)	(68.005)	(405.538)	4.187	(513.467)
January 1, 2021 - December 31,2021							
Balance at January 1, 2021	€ 1.756	€ 212.722	€ (258.589)	€ (68.005)	€ (405.538)	€ 4.187	€(513.467)
First-time consolidation of subsidiary (note 3)	-	-	-	-	847	-	847
Special reserve account/ Additional paid in capital	-	(19.261)	-	-	-	-	(19.261)
Other comprehensive loss	-	-	-	4.533	-	-	4.533
Dividends to shareholders	-	-	-	-	(481.051)	-	(481.051)
Dividends to non-controlling interests	-	-	-	-	-	(1.515)	(1.515)
Net income (loss)	-	-	-	-	(6.907)	1.016	(5.891)
Balance at December 31, 2021	1.756	193.461	(258.589)	(63.472)	(892.649)	3.688	(1.015.805)

Development of income and expense recognized in shareholders' equity (deficit)

	Items that will not be reclassified subsequently to the statement of operations		Items that will be reclassified subsequently to the statement of operations			
	Remeasurement of defined benefit plans	Deferred taxes	Currency translation gains (losses)	Derivative financial instruments	Deferred taxes	Total
Balance at January 1, 2020	€ (59.949)	€ 8.067	€(4.532)	€(1.462)	€ 340	€ (57.536)
Additions (disposals)	(4.476)	-	-	41	-	(4.435)
Reclassifications	(2.726)	(67)	2.467	-	-	(326)
Transfer to profit or loss	-	-	-	576	-	576
Deferred taxes	-	273	-	-	513	786
Currency translation differences	3.113	(292)	(9.954)	93	(30)	(7.070)
Balance at December 31, 2020	(64.038)	7.981	(12.019)	(752)	823	(68.005)
Balance at January 1, 2021	€ (64.038)	€7.981	€(12.019)	€(752)	€823	€ (68.005)
Additions (disposals)	29.530	-	-	(87)	-	29.443
Transfer to profit or loss	-	-	-	837	-	837
Deferred taxes	-	(737)	-	-	(3.647)	(4.384)
Currency translation differences	(2.360)	247	(19.223)	(24)	(3)	(21.363)

	Items that will not be reclassified subsequently to the statement of operations		Items that will be reclassified subsequently to the statement of operations			
	Remeasurement of defined benefit plans	Deferred taxes	Currency translation gains (losses)	Derivative financial instruments	Deferred taxes	Total
Balance at December 31, 2021	(36.868)	7.491	(31.242)	(26)	(2.827)	(63.472)

Consolidated Statements of Cash Flows

(in thousands of Euros)

	Note	Year ended December 31, 2021	Year ended December 31, 2020
Net income (loss)		€ (5.891)	€ 122.948
Amortization/depreciation/impairment		125.352	126.581
Financial result		141.557	72.099
Cash interest paid		(85.141)	(84.042)
Income tax benefits		(52.081)	(62.139)
Cash income taxes paid		(20.426)	(15.451)
Loss on sale of non-current assets		19	744
Share based compensation		854	1.408
Increase in accounts receivable (third parties)		(8.297)	(887)
Increase in inventories		(56.084)	(1.557)
Increase (decrease) in accounts payable (third parties)		99.007	(22.782)
Increase (decrease) in trade payables third parties related to capital expenditures	(23)	(2.752)	3.075
Decrease in dilution reserve		9.052	9.202
(Increase) decrease in other current assets		(18.163)	10.694
Increase in accruals and other payables		40.394	11.569
Decrease in restructuring and integration accruals		(5.306)	(7.410)
Other		(61.973)	22.400
Cash provided by operating activities*		100.121	186.452
Capital expenditures		(63.932)	(69.545)
Increase (decrease) in trade payables third parties related to capital expenditures	(23)	2.752	(3.075)
Proceeds from sale of fixed assets		1.253	1.128
Cash used by investing activities		(59.927)	(71.492)
Cash flows from financing activities			
Repayment - senior secured term loan		(1.396.905)	(7.254)
Proceeds - senior secured term loan		1.198.778	-
Proceeds - senior secured notes		400.000	-
Proceeds - senior unsecured notes		300.000	-
Proceeds - revolving credit facility		151.755	385.125
Repayment - revolving credit facility		(152.130)	(387.648)
Share premium repayment to shareholder		(20.115)	-
Dividends to shareholder		(481.051)	-
Deferred debt issuance costs		(36.259)	-
Proceeds - other financial debt		20.054	67.473
Repayment - other financial debt		(27.194)	(69.239)
Lease payments		(26.523)	(19.946)
Financing and refinancing related costs		(5.721)	(1.061)
Other		(497)	(3.187)
Cash used by financing activities		(75.808)	(35.737)
Effect of exchange rate changes on cash and cash equivalents		226	6.424
Net changes in cash and cash equivalents		(35.388)	85.647
Cash and cash equivalents at beginning of period		137.515	51.868
Cash and cash equivalents at end of period		102.127	137.515

* Effects on cash flow associated with factoring are shown in operating cash flow.

Notes to the Consolidated Financial Statements

(in thousands of Euros, except per share data)

(1) General information

Foundation of the Group - Kleopatra Holdings 2 S.C.A. was established on May 10, 2012 for the purpose of acquiring the rigid film business of Kleopatra Lux 2 S.à r.l. (“target group”) by a group of investors led by Strategic Value Partners LLC (“SVP Investor Group”). On June 21, 2012, the target group was acquired by Kleopatra Holdings 2 S.C.A.

Throughout these consolidated financial statements, the terms “Group”, “kp”, “kpGroup”, or “Company” refer to the Kleopatra Holdings 2 S.C.A. and its consolidated subsidiaries.

Domicile and parent company - Kleopatra Holdings 2 S.C.A. is a Société en Commandite par Actions, a partnership limited by shares, organized and existing in accordance with the laws of the Grand Duchy of Luxembourg (Luxembourg). Its domicile, place of central administration and registered office address is 46A, Avenue J.F. Kennedy, 1855 Luxembourg, Luxembourg. Kleopatra Holdings 2 S.C.A. has issued both an unlimited liability management share and limited liability shares. The unlimited liability management share is held by Kleopatra Senior Holdings GP S.à r.l., a private limited liability company organized and existing in accordance with the laws of Luxembourg, with registration number RCS Luxembourg B 248094 and registered office address at 46A, Avenue J.F. Kennedy, 1855 Luxembourg, Luxembourg, which acts as the general partner and sole manager of Kleopatra Holdings 2 S.C.A..

On October 22, 2020, Kleopatra Holdings GP S.A. (being the former general partner and sole manager of Kleopatra Holdings 2 SCA) transferred its management share (action de commandité) to Kleopatra Senior Holdings GP S.à r.l..

Until July 3, 2017, the limited liability shares in Kleopatra Holdings 2 S.C.A. were held by Kleopatra Holdings 1 S.C.A.. On July 3, 2017, following the completion of the LINPAC Senior Holdings Limited (“LINPAC”) acquisition as a common control transaction the parent company Kleopatra Holdings 1 S.C.A. incorporated a new wholly owned subsidiary, Kleopatra Intermediate Holdings S.à r.l. and contributed 90% of the issued share capital referring to limited liability shares of the Company to it.

As of December 31, 2021, the only securityholder (on an aggregated basis) holding more than 20% of the issued share capital of Kleopatra Holdings 1 S.C.A. and Kleopatra Senior Holdings GP S.á r.l. were entities which are ultimate affiliates of funds managed by SVP Investor Group and its affiliates. The ultimate controlling entity of the Group is Kleopatra Holdings 1 S.C.A..

Nature of operations - kp is a global manufacturer of rigid and flexible packaging, specialty film solutions, serving the pharmaceutical, medical device, food, beverage and card markets, amongst others, and with a history spanning more than 50 years. The Company’s business was founded in Montabaur, Germany, in 1965. kp has both, a global operating platform and strong capabilities in the most important polymers in the rigid plastic films markets.

Following the acquisition of LINPAC in June 2017, the Group operates facilities in 31 manufacturing sites and sells its products in more than 90 countries. The Company has around 7.500 customers and employs approximately 5.300 people.

Segments - Following a business structure change effective July 1, 2019, the Company’s operations are organized into two reportable segments: Food Packaging and Pharma, Health & Protection, and Durables.

Authorization for issuance - These consolidated financial statements of Kleopatra Holdings 2 S.C.A. were approved by the general partner and sole manager Kleopatra Senior Holdings GP S.á r.l. for issuance on March 31, 2022. Financial statements are only considered final when approved by the shareholders during the annual general meeting.

(2) Basis of preparation

The consolidated financial statements present the operations of Kleopatra Holdings 2 S.C.A. and its subsidiaries for all periods presented and have been prepared in accordance with International Financial Reporting Standards (“IFRS") and its interpretations issued by the International Accounting Standards Board (“IASB”), as adopted by the European Union (“EU”). The financial statements of the consolidated reporting entities are prepared according to group recognition and valuation principles.

Various numbers set out in the financial statements and notes have been rounded and accordingly may not total exactly.

The consolidated financial statements of Kleopatra Holdings 2 S.C.A. are stated in Euro. Amounts are shown in thousands of Euros except where otherwise indicated.

The presentation in the consolidated statements of financial position differentiates between current and non-current assets and liabilities, some of which are broken down further by their respective maturities in the notes to the consolidated financial statements. The consolidated statements of income (loss) are presented using the cost-of-sales method. Under this format, net revenues are compared against the expenses incurred to generate these revenues, classified into cost of goods sold, research and development, selling, and general and administrative functions.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying kpGroup's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Going concern - The consolidated financial statements have been prepared on the basis that kpGroup will continue as a going concern. kpGroup has a net loss of € 5.891 for the year ended December 31, 2021 and shows a shareholders’ deficit of € 1.015.805.

As of December 31, 2021, kpGroup is funded mainly by senior secured and unsecured notes with fixed interest rates and senior secured term loans with variable interest rates, held by various entities of the kpGroup. See note 24.

kpGroup has € 102.127 of available cash and cash equivalents and a € 150.000 revolving credit facility which has not been drawn at December 31, 2021 as well as some smaller credit lines available as of December 31, 2021. The financing arrangement and the resulting liquidity position are considered by executive management as appropriate to provide the necessary liquidity to fund operations for the foreseeable future.

New and amended standards as adopted by the EU

The following pronouncements, issued by the IASB, already endorsed in the European Union as of January 1, 2021, have been adopted by kpGroup when applicable.

Amendment IFRS	EU-effective date
Amendments to IFRS 9, IFRS 7, and IFRS 16: Interest Rate Benchmark Reform (Phase 2)	January 1, 2021

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

— A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.

— Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.

— Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The standards and interpretations issued, but not yet effective up to the date of issuance of kpGroup’s consolidated financial statements, which are or may be applicable to kpGroup, are disclosed below. kpGroup intends to adopt these standards and interpretations when they become effective, except otherwise stated.

The Company has not completed the process of evaluating the impact that will result from adopting the following IASB accounting pronouncements but believes that they either will not be applicable or expects no material effect on the financial statements.

Amendment IFRS	EU-effective date

Amendment IFRS	EU-effective date
Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022
Amendments to IAS 37 Provisions: Onerous Contracts	January 1, 2022
Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework	January 1, 2022
Amendments to IAS 1 Presentation of Financial Statements: Classification of liabilities as current or non-current	Not announced yet
Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting Policies	Not announced yet
Amendments to IAS 8 Accounting Estimates: Definition of accounting estimates and other amendments	Not announced yet
Amendments to IAS 12 Income Taxes: Deferred tax on transactions related to assets and liabilities	Not announced yet

Annual improvements to IFRS 2018-2020 Cycle - The Annual Improvements include amendments to four Standards:

IFRS 1 First-time Adoption of International Financial Reporting Standards - Not relevant to kpGroup.

IFRS 9 Financial Instruments - The amendment clarifies which fees an entity includes when it applies the “10 per cent” test in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

IFRS 16 Leases - The amendment removes the illustration of payments from the lessor relating to leasehold improvements in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

IAS 41 Agriculture - Not relevant to kpGroup.

All the amendments have not been endorsed by the EU. The amendments are either not relevant to kpGroup or are not expected to have material effect on the financial statements.

(3) Summary of significant accounting policies

Basis of consolidation - The consolidated financial statements include the accounts of Kleopatra Holdings 2 S.C.A. and its subsidiaries which are directly or indirectly controlled. Control is generally conveyed by ownership of the majority of voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date on which control ceases.

Consolidated subsidiaries - the consolidated financial statements include the following reporting units:

No.	Company	Location	Ownership December 31, 2021	Ownership December 31, 2020
1.	Infia Ibérica SL	Puzol/Spain	75%	75%
2.	Infia Plastic S.L.	Puzol/Spain	90%	90%
3.	Infia S.r.l	Bertinoro/Italy	100%	100%
4.	Kleopatra Finco S.à r l. (incorporated January 22, 2021)	Luxembourg/Luxembourg	100%	-
5.	Kleopatra Lux 2 S.à r.l.	Luxembourg/Luxembourg	100%	100%
6.	Kleopatra UK Ltd.	Crumlin/Great Britain	100%	100%
7.	Klöckner Pentaplast (Middel East) FZE	Sharjah/U.A.E.	100%	100%
8.	Kloeckner Pentaplast (Suzhou) Specialty Materials Co., Ltd.	Suzhou/P.R. China	100%	100%
9.	Kloeckner Pentaplast (Thailand) Ltd.	Rayong/Thailand	100%	100%
10.	Klockner Pentaplast de Argentina S.A.	Villa Del Totoral/Argentina	100%	100%
11.	Klockner Pentaplast de México S. de R.L. de C.V.	Col. Verónica Anzures/Mexico	100%	100%
12	Klöckner Pentaplast do Brasil Ltda.	Cotia/Brazil	100%	100%
13.	Klöckner Pentaplast (Egypt) SAE	Alexandria/Egypt	100%	100%
14.	Klöckner Pentaplast España S.A.U.	Sant Feliu de Buixalleu/Spain	100%	100%
15.	Klöckner Pentaplast Europe GmbH & Co. KG	Heiligenroth/Germany	100%	100%
16.	Klöckner Pentaplast Gebze Ambalaj Maddeleri A.Ş.	Istanbul/Turkey	100%	100%
17.	Klöckner Pentaplast German Holding GmbH & Co. KG	Heiligenroth/Germany	100%	100%
18.	Klöckner Pentaplast GmbH	Heiligenroth/Germany	100%	100%
19.	Klöckner Pentaplast India Private Limited	Gurgaon/India	100%	100%
20.	Klöckner Pentaplast Ltd.	Crumlin/Great Britain	100%	100%
21	Klöckner Pentaplast Netherlands B.V.	Weert/The Netherlands	100%	100%
22.	Klockner Pentaplast of America, Inc.	Gordonsville, Virginia/USA	100%	100%
23	Klöckner-Pentaplast of Canada, Inc.	Montréal/Canada	100%	100%
24.	Klöckner Pentaplast Schweiz AG	Bern/Switzerland	100%	100%
25.	Klöckner Pentaplast Verwaltungs GmbH	Heiligenroth/Germany	100%	100%
26.	KP Business Services, Unipessoal, Lda.	Leça do Balio/Portugal	100%	100%
27	KP Germany Erste GmbH	Heiligenroth/Germany	100%	100%
28.	KP Holding GmbH & Co. KG	Heiligenroth/Germany	100%	100%
29.	KP Holding Verwaltungs GmbH	Heiligenroth/Germany	100%	100%
30.	KP International Holding GmbH	Heiligenroth/Germany	100%	100%
31.	kp Investments Holdings LLC	Wilmington, Delaware/USA	100%	100%
32.	KP Real Estate GmbH & Co. KG	Heiligenroth/Germany	100%	100%
33.	KP Senior Holdings Limited	St Helier/Jersey	100%	100%

No.	Company	Location	Ownership December 31, 2021	Ownership December 31, 2020
34.	LA 2012 Ltd.	Featherstone/Great Britain	100%	100%
35.	LINPAC Distribution SAS	Noyal-Pontivy/France	100%	100%
36.	LINPAC Environmental Ltd.	Featherstone/Great Britain	100%	100%
37.	LINPAC Europe Ltd.	Featherstone/Great Britain	100%	100%
38.	LINPAC Finance (No.2) Ltd.	Featherstone/Great Britain	100%	100%
39.	LINPAC Finance (No.3) Ltd.	Featherstone/Great Britain	100%	100%
40	LINPAC Finance Ltd.	Featherstone/Great Britain	100%	100%
41.	Linpac Finco Ltd	Featherstone/Great Britain	100%	100%
42.	LINPAC Group Holdings Ltd.	Featherstone/Great Britain	100%	100%
43.	LINPAC Group Limited	Featherstone/Great Britain	100%	100%
44.	LINPAC Holdings (Northern Europe) GmbH	Bremen/Germany	100%	100%
45.	LINPAC Holdings Deutschland GmbH	Bremen/Germany	100%	100%
46.	LINPAC Metal Packaging Ltd.	Featherstone/Great Britain	100%	100%
47.	LINPAC Mouldings GmbH	Bremen/Germany	100%	100%
48.	LINPAC Mouldings Ltd.	Featherstone/Great Britain	100%	100%
49.	LINPAC Packaging Pontivy SAS	Noyal-Pontivy/France	100%	100%
50.	LINPAC Packaging Australia Pty Ltd.	Truganina/Australia	100%	100%
51.	LINPAC Packaging B.V.	Heerenveen/The Netherlands	100%	100%
52.	LINPAC Packaging Changzhou Co Ltd.	Changzhou City/P.R. China	100%	100%
53.	LINPAC Packaging China Holdings Ltd.	Featherstone/Great Britain	100%	100%
54.	LINPAC Packaging Dalidet SAS	Ballee/France	100%	100%
55.	LINPAC Packaging East	Orsha/Belarus	100%	100%
56.	LINPAC Packaging GmbH	Ritterhude/Germany	100%	100%
57.	LINPAC Packaging Holdings SL	Pravia/Spain	100%	100%
58.	LINPAC Packaging Italia S.p.A.	San Giovanni Lupatoto/Italy	100%	100%
59.	LINPAC Packaging Kft	Törökbalint/Hungary	100%	100%
60.	LINPAC Packaging Ltd.	Featherstone/Great Britain	100%	100%
61.	LINPAC Packaging Pravia SA	Pravia/Spain	100%	100%
62.	LINPAC Packaging Production sp. z.o.o.	Brzeg Dolny/Poland	100%	100%
63.	LINPAC Packaging Provence SAS	Noyal-Pontivy/France	100%	100%
64.	LINPAC Packaging Rigid GmbH	Beeskow/Germany	100%	100%
65.	LINPAC Packaging Romania S.r.l.	Cluj/Romania	100%	100%
66.	LINPAC Packaging S.r.o.	Mnicovo Hradiste/Czech Republic	100%	100%
67.	LINPAC Packaging Sro	Nitra/Slovakia	100%	100%
68.	LINPAC Packaging Verona Srl	San Giovanni Lupatoto/Italy	100%	100%
69.	LINPAC Senior Holdings Ltd.	Featherstone/Great Britain	100%	100%
70.	LLC Linpac Trading Rus.	Moscow/Russia	100%	100%
71.	Moldpack S.L.	Pravia/Spain	100%	100%
72.	New Linpac Luxco 2 S. à r.l.	Luxembourg/Luxembourg	100%	100%
73.	OOO Klöckner Pentaplast Rus	St. Petersburg/Russia	100%	100%
74.	Ovarpack Embalagens S.A.	Ovar/Portugal	100%	100%
75.	Pentaplast, Unipessoal, Lda.	Santo Tirso/Portugal	100%	100%
76.	PICNAL France SAS	Noyal-Pontivy/France	100%	100%

As of December 31, 2021, the consolidated financial statements include 76 reporting units (74 reporting units at December 31, 2020). The following changes occurred since January 1, 2021 in the group structure and therefore impact the basis of consolidation.

Incorporation:

Kleopatra Finco S.à r.l. has been incorporated on January 22, 2021

Included in consolidation for the year ended December 31, 2021:

Klöckner Pentaplast (Egypt) SAE

The list of consolidated companies and the complete list of all companies in which Kleopatra Holdings 2 S.C.A. holds shares as required by section 312 II of the German Commercial Code and information for exemption of subsidiary from accounting and disclosure obligation, are an integral component of the audited consolidated financial statements submitted to the electronic federal gazette. The list of shares held is published online as well.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence for an impairment of the asset transferred.

Companies in which Kleopatra Holdings 2 S.C.A. has the ability to exercise significant influence over operating and financial policies (generally through direct or indirect ownership of 20% to 50% of the voting rights) are recorded in the consolidated financial statements using the equity method of accounting and are initially recognized at cost. kpGroup’s share of its associated companies’ postacquisition profits or losses is recognized in the consolidated statements of income (loss). In Vinyl Solutions LLC, Atlanta, Georgia/USA, kpGroup holds 50% of the voting rights, which is accounted as a joint venture in accordance with IFRS 11.

Foreign currency translation - Items included in the financial statements of each of kpGroup’s entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Euro which is kpGroup’s functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses arising from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of income (loss), except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

The results and the financial position of all consolidated group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the balance sheet;

b) Income and expenses for each statement of income (loss) are translated at average exchange rates of the respective financial year, and

c) All resulting effects from the use of different rates, as stated under a) and b), are recognized as a separate component of equity.

At the consolidation level, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken directly to shareholders' equity. When a foreign operation is sold, such exchange differences will be recognized in the consolidated statements of income (loss) as part of the gain or loss on sale.

Revenue recognition - kpGroup primarily generates income from the sale of goods. Customer contracts generally contain two performance obligations (products and shipping services) and turnover is recognized when control of the products being sold has transferred to our customer as there are no longer any unfulfilled obligations to the customer. The point in time where control is transferred to the customer for goods depends on the terms of delivery (incoterms) used. This is considered the appropriate point where the performance obligations in our contracts are satisfied as kp no longer has control over the inventory. If products are delivered to a consignment warehouse, kp normally retains control. Revenue is recognized when the customer consumes the goods.

Although framework contracts may exist with certain larger customers, all revenues are triggered through individual purchase orders. Services like technical product assistance are immaterial and not separable from the sale of the goods.

No element of financing is deemed present as the payment terms agreed between the Company and its customers do not exceed 90 days from the end of the month in which the invoice is issued.

The customer contracts irrespective of whether they are based on framework agreements or bound by the general terms and conditions provide the customer with a right to claim for warranty solely based on the quality of the product.

Significant estimates - The customer contracts at kp include rebates which are dependent upon the customer ordering a threshold quantity in a certain period and to minor extent rebates which do not require the achievement of a quantity target. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated rebates. A refund liability is recorded in other liabilities on the balance sheet and as a reduction of revenue in the income (loss) statement. It is paid to the customer on a quarterly or annual basis. The Company may settle a rebate in cash or may deduct the rebate from the customer's receivable balance upon settlement.

Contract balances - There are some contract liabilities, which arise when an entity receives consideration from its customer (or has the unconditional right to receive consideration) in advance of performance. The contract liabilities resulting from customer down payments received amounted to € 1.771 as of December 31, 2021 (€ 1.795 as of December 31, 2020).

Research and development expenses - Development costs are capitalized on the balance sheet if all recognition criteria set by IAS 38 - intangible assets - are met before the products are launched on the market. Due to uncertainties inherent in the development of new products, development costs are in most cases charged to the income (loss) statement in the period in which they are incurred. For the majority of the Company's development projects the expected future economic benefits cannot be reliably determined. As long as the products have not reached the market place, there is no reliable evidence that positive future economic benefits will be generated. Expenditure for research, in general, and development that does not meet the conditions for capitalization according to IAS 38 Intangible Assets is expensed as incurred.

Income tax benefits/expenses - kpGroup is subject to income taxes in numerous jurisdictions. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Judgement is required in determining the provision for income taxes, including transactions and calculations whose ultimate tax treatment is uncertain. Management evaluates such positions and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Deferred income tax is recognized in the income (loss) statement, except to the extent that it relates to items recognized in other comprehensive income (loss). There are no items to be credited or charged directly to equity.

Net interest expense - Net interest expense include interest income and expense, expected interest on plan assets and defined benefit obligations, amortization of ancillary costs incurred in connection with the arrangement of borrowings, finance lease charges and the unwinding discount on provision balances. Interest income and borrowing costs are recognized as they accrue using the effective interest rate method.

Assets and liabilities - The statement of financial position is classified by maturity. The assets are classified as current if they mature within one year or are held for sale and as non-current if they remain in kpGroup for more than one year. Accounts receivable and accounts payable, claims for tax refunds, tax liabilities and inventories are presented as current items, deferred tax assets and liabilities as non-current items.

Cash and cash equivalents - Cash and cash equivalents are recognized at par value. Cash and cash equivalents represent cash on hand, deposits held at call with banks and other short term, highly liquid investments with original maturities of three months or less such as investments in money market funds.

Restricted cash - Restricted cash is recognized at par value. The position comprises cash which is not available for immediate use and may not be utilized for any purpose until a certain event or string of events take place.

Accounts receivable allowance - kpGroup applies the simplified approach to measure expected credit losses on trade receivables, using provision matrices established on the basis of credit loss histories and management assessments on individual credit risk. The allowances are regularly reviewed by considering factors such as customer financial strength, concerns/disputes raised by customers, the age of accounts receivable balances, current economic conditions that may affect a customer's ability to pay, deterioration in the creditworthiness of a debtor and historical experience. Losses are recorded within selling expenses in the statements of income (loss).

Derivative financial instruments - Derivatives are only used for economic hedging purposes and not as speculative investments. Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. kpGroup designates the derivatives as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

The Company documents the relationship between hedging instruments and hedged items at the inception of the transaction, as well as its risk management objective and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

a) There is an economic relationship between the hedged item and the hedging instrument;

b) The effect of credit risk does not dominate the value changes that result from that economic relationship;

c) The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that kpGroup actually hedges and the quantity of the hedging instrument that kpGroup actually uses to hedge that quantity of hedged item.

The fair values of the derivative financial instruments used for hedging purposes are disclosed in note 16. Movements on the hedging reserve in other comprehensive income (loss) are shown in the statement of changes in shareholder's deficit. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than twelve months and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

The effective portion of changes in the fair value of cash flow hedges is recognized in other comprehensive income (loss). The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of income (loss) within financial result.

Amounts accumulated in equity are reclassified to the consolidated statements of income (loss) in the periods when the hedged item affects profit or loss. The gain or loss related to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the income (loss) statement within financial result. The gain or loss related to the effective portion of forward foreign exchange contracts is recognized in profit or loss within operating result.

When a hedging instrument is expired or sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated statements of income (loss). When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statements of income (loss) within financial result.

Inventories - Inventories encompass finished goods, work in progress, raw materials, supplies and spare parts. They are stated at the lower of cost and net realizable value. Raw materials are evaluated at cost using the first in first out method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Risks in inventories relating to slow-moving or obsolete items are accounted for by way of appropriate allowances.

Goodwill - Goodwill represents the excess of the cost of an acquisition over the fair value of kpGroup's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Intangible assets - Intangible assets comprise of customer lists, trademarks and technology acquired in context of the acquisition. Intangible assets acquired separately, like software, are upon initial recognition valued at costs. The costs of intangible assets acquired as part of a business combination are equal to their fair values as of the date of the acquisition. Intangible assets that have finite useful lives are amortized from 2 to 20 years over the estimated useful life. The following useful lives are assumed for amortization:

Customer list	7 to 20 years
Trademark	15 years
Technology	2 to 15 years
Software	3 to 10 years
Other	3 to 10 years

Customer list - Customer relationships are amortized over the expected period in which those relationships are expected to contribute to future cash flows, based in such a way as to allocate it as evenly as possible over periods to match expected revenue.

Trademark - The valuation of the trademark is based on an income approach within the purchase price allocation in the specific form of a relief from royalty approach. The identified value is considered to have a finite life and amortized using the straight-line method.

Technology - Technical know-how is capitalized within the purchase price allocation based on an income approach identifying cost savings of recent years and amortized using the straight-line method.

Computer software - If rights held by kp under licenses of software are on-premise they are treated as intangible assets within the scope of IAS 38. If a contract gives only the right to receive access to the supplier's application software especially via cloud, the contract is a service contract and it is treated accordingly. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method over a period not to exceed ten years. Costs associated with internally developed or maintained computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate future economic benefits exceeding costs beyond one year, are recognized as intangible assets. Those direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Non-compete covenants - They are amortized over their respective contractual period of time. The amortization of non-compete covenants are included in other operating expenses.

Intangible assets are derecognized when they are disposed of when no further economic benefit is to be expected from either their use or disposal.

Property, plant and equipment - Land and buildings are mainly related to factories and offices. All property, plant and equipment is shown at cost, less subsequent depreciation and impairment, except for land, which is shown at cost less impairment charges. Cost includes expenditures that are directly attributable to the acquisition of these items including wages and salaries. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to kpGroup and the cost of the item can be measured reliably.

Depreciation is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life as follows:

Office and factory buildings	5 to 50 years
Technical equipment and machinery	10 to 25 years
Other office and factory equipment	3 to 10 years
Land	not depreciated

Major maintenance costs are depreciated over the remaining useful life of the related asset or to the date of the next major maintenance event, whichever is sooner. All other repair expenditures are charged to the income (loss) statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in the consolidated statements of income (loss).

Impairment losses are reversed when the reason for the recognition of the impairment loss no longer exist. The impairment loss, however, is reversed only to the extent that the carrying value of the asset does not exceed its initial value.

Asset impairment - Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows on meaningful levels.

Investments - Investments consist of shares and loans to non-consolidated subsidiaries and loans to employees. The valuation of investments in associated enterprises follows the at-equity method. The investment in associates is initially recognized at cost and thereafter for the post acquisition changes in Company share of net assets in the investee.

Other comprehensive income (loss) - The income and expenses shown in other comprehensive income (loss) are divided into two categories. Items that will be reclassified to the income (loss) statement in the future (known as “recycling”) and items that will not be reclassified to the income (loss) statement in the future. The first category includes translation adjustments and changes in the fair value of derivatives held to hedge future cash flows. Items in the other comprehensive income (loss) that will not be reclassified to the income (loss) statement at a future date include effects from the remeasurement of defined benefit plans.

Right-of-use assets and lease liabilities - The Company leases land and buildings for its office space and warehouse and manufacturing locations. The leases typically run for a period of 1 to 5 years. Some leases include an option to renew the lease for either an additional period of the same duration or for a differing duration after the end of the contract term.

The Company leases technical equipment and machines with lease terms typically of 1 to 5 years. In some cases, the Company has options to purchase the assets at the end of the contract term; in other cases, it guarantees the residual value of the leased assets at the end of the contract term.

Additionally, the Company leases other equipment, factory and office equipment with lease terms typically of 1 to 5 years. Several leases have termination clauses. Most of these clauses require notice periods, typically from three to twelve months of notice.

Extension and termination options are included in some of the leases across the kpGroup. These terms are used to maximize operational flexibility in terms of managing contracts. The Group assesses the lease terms on commencement and at each reporting period on certain lease contracts which includes renewal or termination options. The extension or termination options are only included in the lease term if the Group is reasonably certain to exercise the options.

In the assessment of the lease term, the Company uses its incremental borrowing rate (“IBR") as the discount rate. When determining the IBR the following information is taken into account: the Company’s credit rating, the collateral granted to the lessor, the term of lease arrangement and the amount and currency in which the borrowing is taking place. The Group’s weighted average IBR applied to lease liabilities recognized in the statement of financial position as of December 31, 2021 is 5,35%.

The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component. The Company has also elected not to recognize right-of-use assets and lease liabilities for short-term leases (i.e. less than 12 months) and leases of low-value assets, which is defined as below € 5. This will be applied to all eligible leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Borrowings - Borrowings are recognized initially at cost which approximates fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost, any difference between proceeds (net of transaction costs) and the redemption value is recognized in the statement of income (loss) over the period of the borrowings using generally the effective interest method.

Borrowings are classified as current liabilities unless kpGroup has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Retirement benefit obligations - The Company operates a number of defined benefit and defined contribution pension schemes.

The defined benefit pension obligation, as accounted for under IAS 19 are actuarially measured using the projected unit credit method, taking into account not only the pension obligations and vested pension rights known at the reporting date, but also expected future salary and benefit increases. The interest rate used to determine the present value of the obligations is generally set on the basis of the yields on high-quality corporate bonds in the respective currency area. The return on plan assets and interest expenses resulting from the unwinding of the discount are reported in net interest expenses. Service cost is classified as operating expenses. Past service costs resulting from a change in the pension plan shall immediately be recognized in the period in which the change took effect. Gains and losses arising from adjustments and changes in actuarial assumptions are recognized immediately and in full in the period in which they occur outside profit or loss within equity.

Some Group entities grant defined contributions plans to their employees in accordance with statutory or contractual requirements, with the payments being made to state or private pension insurance funds. Under defined contributions plans, the employer does not assume any other obligations above and beyond the payment of contributions to an external fund. The amount of the future pension payments will exclusively depend on the contributions made by the employer (and their employees, if applicable) to the external fund, including income from the investment of such contributions. The amounts payable are expensed when the obligation to pay the amounts is established, and classified as expense.

Provisions for partial retirement arrangements - In accordance with the so-called "Tarifvertrag zur Förderung der Altersteilzeit der chemischen Industrie” (agreement on pre-pension part-time work for chemical industry) in Germany, kpGroup enters up to a limited extent into partial retirement arrangements at the option of their employees, when they reached the age of 55 years or later, in line with the applicable minimum of the regular retirement age. The corresponding law in Germany was repealed at December 31, 2009. Contracts which have been entered thereafter are on a voluntary basis between the employees and kp. Under these arrangements, supplementary payments are granted by the employer for which there is no matching service in return. For these payments a provision is recognized. The provision is computed using actuarial principles. The provision also includes outstanding settlement amounts. An outstanding settlement amount arises when, instead of a reduced working phase over the early retirement period, the employee works full time in the first half of the early retirement period and is then released, while the reduced salary is paid monthly over the entire period ("block model"). Provisions for partial retirement arrangements are included in "provisions for other liabilities and charges".

Partial retirement arrangements are funded with insurance assets. Fund assets are offset against the related obligations in other provisions. The resulting surplus of assets over liabilities is reported in other non-current assets.

Provisions for other liabilities and charges - Other provisions are made if there is a legal or constructive obligation to a third party at the balance sheet date as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Grants - Government grants are recognized as income (over the periods) as they match with related costs.

Deferred income taxes - Deferred tax assets and liabilities are determined using the liability method. The Company uses tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred income tax liability is settled. These tax rates are then applied to differences arising between the tax bases of assets and liabilities and their financial statement carrying amounts.

Deferred tax liabilities for each particular group company are recognized in full and deferred tax assets for each particular group company are recognized to the extent that it is probable they will be realized. The Company’s ability to realize a deferred tax asset is based on taxable temporary differences as well as historical and expected taxable income. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred tax balances relate to the same taxation authority.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by kpGroup and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is not recognized for the initial recognition of goodwill.

Subscribed capital - All shares are classified as equity and are shown in the amount of nominal value.

Share based compensation - Share based compensation expense is measured as the grant date fair value of the award multiplied by the number of awards expected to vest at each reporting date. This expense is recognized ratably over the requisite service period of the award. Kleopatra Holdings 1 S.C.A. grants restricted stock to employees of the Company. The fair value of the restricted stock is determined using the fair value of the related class of Kleopatra Holdings 1 S.C.A.’s stock on the date of grant. Please refer to note 30.

(4) Accounting estimates and judgment

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

kpGroup makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below.

Preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions affecting recognition and measurement in the statements of financial position and statements of income (loss), as well as the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

In particular, estimates are required when:

— accounting for business combinations

— assessing the need for and measurement of impairment losses

— accounting for pension obligations

— accounting for share based compensation

— recognizing and measuring provisions for tax, warranty and litigation risks, restructuring and value creation participation program

— determining inventory write-offs and allowances

— assessing the extent to which deferred tax assets will be realized

— impairment of receivables

kpGroup was liable to pay income taxes in several countries. Essential assumptions were required to determine the income tax provision.

Business combination - As a result of acquisitions, kpGroup has recognized goodwill in its consolidated statements of financial position. In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair value. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Land, buildings and equipment are usually independently appraised while marketable securities are valued at market price. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, kpGroup either consults with an independent external valuation expert or develops the fair value internally, using an appropriate valuation technique which is generally based on a forecast of the total expected future net cash flows. These evaluations are linked closely to the assumptions made by management regarding the future performance of the assets acquired and any changes in the discount rate applied.

Impairment tests for goodwill and indefinite life intangibles and long-lived assets - According to IAS 36 goodwill is tested annually for impairment of the cash generating units (“CGU”). The recoverable amounts of CGU have been determined based on their fair value less the cost to sell. kpGroup tests beginning with the year of acquisition at least annually whether goodwill has suffered any impairment in comparison to the determined recoverable amounts, in accordance with its accounting policy. The determination of the recoverable amount of a CGU to which goodwill is allocated involves the use of estimates by management. The recoverable amount is the higher of the CGUs fair value less costs to sell and its value in use. kpGroup generally uses discounted cash flow based methods to determine fair value, which needs to consider the exit price to the market participants. These discounted cash flow calculations use three-year projections that are based on the financial budgets. Cash flow projections take into account past experience and represent management’s best estimate about future developments. Cash flows after the three-years planning period are extrapolated using individual growth rates. Key assumptions on which management has based its determination for fair value include estimated revenue and cost growth rates, weighted average cost of capital and tax rates. These estimates, including the methodology used, are based on an average market participant and may have a material impact on the respective recorded values and ultimately the amount of any goodwill impairment. Likewise, whenever property, plant and equipment and other intangible assets are tested for impairment, the determination of the assets' recoverable amount involves the use of estimates by management and may have a material impact on the respective values and ultimately the amount of any impairment.

Pensions - Employee benefits require that certain assumptions are made in order to determine the amount to be recorded for retirement benefit obligations in particular for defined benefit plans. There are mainly actuarial assumptions such as expected inflation rates, life expectancy, and discount rates. Substantial changes in the assumed development of any of these variables may significantly change kpGroup’s retirement benefit obligation and pension assets.

Other provisions - Provisions for tax, warranty, litigation risks and restructuring are recognized and measured by reference to an estimate of probability of future outflows of benefits as well as to data based on facts and circumstances known at the reporting date. The actual liability may differ from the amounts recognized.

The Company identifies and evaluates the impact of uncertain tax positions for which there is a less than more-likely-than-not probability. kpGroup has recognized liabilities for uncertain tax positions where there is more than 50% uncertainty in kpGroup’s filing position or risk of challenge. The Company’s remaining open tax years subject to examination by the tax audit generally remain open for up to five years from the date of filing.

Share based compensation - The fair values of each of the classes of the Kleopatra Holding 1, S.C.A.’s restricted stock were estimated on each grant date. In order to determine the fair value of the restricted stock, a number of objective and subjective factors to determine the best estimate of the fair value of the related class of Kleopatra Holdings 1 S.C.A.’s stock were considered, including: (i) contemporaneous and, in certain cases retrospective, valuations of each of the classes of Kleopatra Holdings 1 S.C.A.’s stock performed by unrelated third-party valuation firms; (ii) the rights, preferences and privileges of Kleopatra Holdings 1 S.C.A.’s and the Company’s different classes of stock relative to those of Kleopatra Holdings 1 S.C.A.’s restricted stock; (iii) Kleopatra Holdings 1 S.C.A.’s and the Company's results of operations, financial position and capital resources; (iv) current business conditions and projections; (v) the lack of marketability of Kleopatra Holdings 1 S.C.A.’s restricted stock prior to a liquidity event, such as an initial public offering or sale of the Company; (vi) the lack of transferability and other restrictions on the Kleopatra Holdings 1 S.C.A. restricted stock post-vesting; (vii) the hiring of key personnel and the experience of management; (viii) the introduction of new products; (ix) the risk inherent in the development and expansion of the Company’s products; (x) Kleopatra Holdings 1 S.C.A.’s and the Company's stage of development and material risks related to its business; and (xi) the likelihood of achieving a liquidity event, such as an initial public offering or sale of the Company, in light of prevailing market conditions.

In addition to the assumptions used in determining the fair value of the related class of the Kleopatra Holdings 1 S.C.A.’s stock, the Company must estimate a forfeiture rate to calculate the stock-based compensation for the Company's awards. The Company's forfeiture rate is based on an analysis of its actual forfeitures. The Company will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover and other factors. Quarterly changes in the estimated forfeiture rate can have a significant impact on the stock-based compensation expense as the cumulative effect of adjusting the rate is recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the stock-based compensation expense recognized in the financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase to the stock-based compensation expense recognized in the financial statements.

Value creation participation program - Senior employees of kpGroup participate in a bonus program. This program is generally based on value creation to incentivize certain of the employees to create and enhance values for the equity holders. Obligations are triggered by a realization event of payments to the shareholder and where there is a change of control of the Group.

Legal contingencies - Klockner Pentaplast companies are parties to litigation related to a number of matters as described in note 32. The outcome of these matters may have a material effect on the financial position, results of operations or cash flows. Management regularly analyzes current information about these matters and provides provisions for probable contingent losses. External lawyers are used for the assessments. In making the decision regarding the need for loss provisions, management considers the degree of probability of an unfavorable outcome and the ability to make a sufficiently reliable estimate of the amount of loss. The filing of a suit or formal assertion of a claim against Klockner Pentaplast companies or the disclosure of any such suit or assertions does not automatically indicate that a provision of a loss may be appropriate.

Recoverability of assets - At each balance sheet date kpGroup assesses whether there is any indication that the carrying amounts of its current assets are impaired. Inventories are written off and allowances are built to the expected net realizable value. The actual selling price and the costs still to be incurred may differ from expected amounts. kpGroup bases the reserve for allowances on accounts receivable on the assessment of the collectability of customer accounts. The allowances are regularly reviewed by considering factors such as customer financial strength, concerns/disputes raised by customers, the age of accounts receivable balances, current economic conditions that may affect a customer's ability to pay and historical experience. As specific balances are determined to be ultimately uncollectible, they are written down to zero. Although management believes that its estimates, its assumptions concerning the economic environment and developments in the industries in which kpGroup operates and its estimations of cash inflows are appropriate. Changes in the assumptions or circumstances could require changes in the analysis. This could lead to additional impairment charges in the future or to reversal of impairments if the trends identified by management reverse or the assumptions or estimates prove incorrect.

(5) Financial risk management

Financial risk factors - As a global Company, kpGroup is exposed to various financial risks such as liquidity, currency, interest rate, credit and procurement market (commodity) that could affect its net assets, its financial position and its operational results. It is company policy to selectively use derivative financial instruments to reduce the above mentioned risks associated with operating and financing activities of the group. kpGroup does not use derivative financial instruments for trading purposes or for speculation.

Financial risk management is coordinated centrally on corporate level via kpGroup Treasury. kpGroup Treasury identifies, evaluates and hedges financial risks in close cooperation with kpGroup’s senior management and the local legal entities. Treasury operations are conducted within a framework of policies and guidelines.

The various risk categories and risk management processes are outlined in the following:

(a) Liquidity risk

Liquidity risk is the risk that kpGroup would become unable to meet its financial obligations when they fall due. The Company manages its liquidity risk and generates liquidity through cash provided from operating activities as well as through drawings on revolving credit facilities, both on group and local levels. Each week the operating subsidiaries provide the group treasury department with forecasts of their individual cash positions over the subsequent three-month period, split by currency-denomination. In addition, the group treasury department monitors the cash position on a daily basis. kpGroup seeks to maintain sufficient liquidity reserves in the form of revolving credit facilities and to concentrate cash positions through efficient cash management structures such as zero balancing cash pools. The ability to use the principal financing facilities is conditioned on compliance with certain financial covenants and other restrictions included in the underlying credit facility agreements.

(b) Currency risk

Kleopatra Holdings 2 S.C.A.’s functional currency is the Euro and a significant portion of the Company’s net sales and expenses are denominated in Euro. As a result of the operations in various countries, kpGroup generates a significant portion of sales and incurs a significant portion of expenses in currencies other than the Euro, primarily the US Dollar, but also the British Pound, Swiss Franc, Canadian Dollar, Russian Ruble, Thai Baht, Brazilian Real, Argentinian Peso, Turkish Lira, Polish Zloty, Australian Dollar and Chinese Yuan, among others.

Certain of the Company’s debt obligations are denominated in US Dollar. Therefore, kpGroup’s results are impacted by both transaction and translation currency effects. Transaction currency effects occur when the Company’s subsidiaries incur costs or earn net sales in a currency different from their functional currency. When the Company is unable to match sales received in foreign currencies with costs paid in the same currency, kp’s results of operations are potentially exposed to adverse as well as beneficial movements in foreign currency exchange rates.

The Company engages in only limited financial hedging of kpGroup’s foreign exchange exposure since kpGroup tries to align the Company’s net receivables with the Company’s net payables in the form of a natural hedge at the local functional currency and legal entity level. kpGroup enters into forward exchange contracts, generally with terms of 180 days or less, to manage some of kp’s foreign currency exposures. These exposures include net sales and anticipated purchase transactions, including foreign currency capital expenditures, forecasted to occur within 180 days. The kpGroup also seeks to manage the Company’s exposure to exchange rate changes with respect to the Company’s borrowings by borrowing in U.S. Dollars, Euros and in local currencies. kpGroup foreign exchange forward contracts are entered into with large financial institutions. These contracts are designated as either cash flow hedges or fair value hedges intended to offset the effect of exchange rate fluctuations on forecasted net sales or purchases of raw materials. The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in Accumulated Other Comprehensive Income/Loss and is subsequently reclassified into earnings in the period in which the hedged forecasted transaction affects earnings. Changes in the fair value of derivatives designated and qualifying as fair value hedges is recorded in earnings. As of December 31, 2021, the notional amounts of Group's outstanding contracts that are designated as cash flow and fair value hedges were approximately € 6.590. Based on the Company’s analysis, a hypothetical adverse foreign exchange rate movement of 10% against the Company’s contracts would not have a material impact on the fair value of these contracts. Please refer to note 16.

The Company is exposed to currency risk in the translation exposure of foreign-currency-denominated equity invested in consolidated companies. Translation currency effects occur when the results of kp’s subsidiaries outside the Euro zones as measured in their non-Euro currencies are translated in Euro using the exchange rates prevailing during the relevant period. For example, a stronger Euro will reduce the reported results of operations of the non-Euro businesses and conversely a weaker Euro will increase the reported results of operations of the non-Euro businesses. These translations could affect the comparability of Group results between financial periods or result in changes to the carrying value of Group assets, liabilities and stockholders’ equity. These risks are not hedged. However, the currency composition of the Company’s borrowings have been structured to reduce the risk of changes in foreign exchange rates. Currency exposure arising from the net assets of Group’s foreign operations in US and in other non-Euro countries is managed to a certain extent through borrowings denominated in the relevant foreign currencies (such as the US Dollar, Australian Dollar, British Pound, Turkish Lira, Chinese Yuan and Brazilian Real).

Currency sensitivity

	Year ended December 31, 2021	
Change in exchange rate EUR/USD	10%	-10%
Profit/(loss) before tax	€ (1.491)	€ 1.822
Change in equity	42.086	(51.439)

(c) Interest rate risk

The Company’s primary interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose kp to cash flow interest-rate risk. Consolidated earnings depend on the interest rate on kp’s floating rate financial liabilities. A change in the level of interest will alter the kpGroup’s earnings. Additional factors could arise that would affect equity due to the change in fair value of the kpGroup’s outstanding liabilities in the context of interest cash flow hedge accounting. Borrowings under the 2021 Senior Secured USD Term Loan, the 2021 Senior Secured EUR Term Loan, and the 2021 revolving credit facility bear interest at floating rates (see note 24). kpGroup has used interest rate derivatives (interest rate swaps) to hedge variable rate U.S. Dollar LIBOR and Euro LIBOR based borrowings from interest rate risk.

On January 2, 2020 the Company entered into an interest cap hedge for its variable rate senior secured term loans to better match the hedging instrument with prevailing market rates. Please refer to note 16. The cap rate of USD cap is 2,50%, the cap rate of the EUR cap is 0,50%. The interest rate caps expire on June 30, 2022. Please refer to note 16.

To manage the interest rate risk exposure for the refinanced debt, KpGroup has entered on March 23, 2021 into another cap for kUSD 543.750 and € 450.000 that starts on June 30, 2022, and expires on December 31, 2024. The cap rate of USD cap is 2,50%, and the cap rate of the EUR cap is 1,00%. Please refer to note 16.

Interest sensitivity

	Year ended December 31, 2021	
Change in interest	1 %	-1%
Profit/(loss) before tax	€ (3.186)	€ (1.700)

(d) Interest rate benchmark reform

As disclosed in note 2, the Group has adopted Amendments to IFRS 9, IFRS 7, and IFRS 16: Interest Rate Benchmark Reform (Phase 2). A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some IBORs with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. The Group evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform to counterparties.

The Group's main IBOR exposure at December 31, 2021 was indexed to EURIBOR and US dollar LIBOR for the debt borrowings. In July 2019, the Belgian Financial Services and Markets Authority granted authorisation with respect to EURIBOR under the European Union Benchmarks Regulation. This allows market participants to continue to use Euribor for both existing and new contracts and the Group expects that EURIBOR will continue to exist as a benchmark rate for the foreseeable future. The alternative reference rate for USD LIBOR is the Secured Overnight Financing Rate (SOFR).

As of December 31, 2021, the Group is in the process of either amending the financial instruments with contractual terms indexed to USD LIBOR, or implementing appropriate fallback provisions for all USD LIBOR indexed exposures. As of December 31, 2021, the unreformed contract comprises mainly the 2021 Senior Secured USD Term Loan with interest rate of 5,25% (USD LIBOR with a floor of 0,5% + 4,75%). See note 24.

The Group expects the affected debt to transition to RFR by the end of 2022. The Group plans to incorporate new benchmark rates for any new financial instruments entered into. The Group also continues to monitor the status of the IBOR reforms of borrowings in other currencies and derivatives instruments, and plan to amend the contracts or implement appropriate fallback provisions as appropriate.

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

— A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.

— Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.

— Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

Applying the practical expedients introduced by the amendments, when the benchmarks affecting the Group's loans are replaced, the adjustments to the contractual cash flows will be reflected as an adjustment to the effective interest rate. Therefore, the replacement of the loans' benchmark interest rate will not result in an immediate gain or loss recorded in profit or loss, which may have been required if the practical expedient was not available or adopted.

The Group does not expect a material impact from the IBOR reforms and will apply the practical expedient if they become applicable.

(e) Credit risk

The Company has credit risks with regard to financial assets including non-current receivables, derivative financial instruments, trade receivables, other receivables and cash and cash equivalents.

Regarding the above mentioned financial assets, kpGroup assessed the credit risk and concluded that apart from trade receivables no expected credit loss provision is deemed necessary.

The credit risk arising from trade receivables is monitored by the relevant subsidiaries. All customers with whom the kpGroup intends to conduct business are subject to credit screening. The assessment process takes into account available qualitative and quantitative information about the counterparty and the group, if any, to which the counterparty belongs. Group policy is designed to mitigate these credit risks through the use of various instruments, including factoring cash deposits and prepayments. The credit risk of the portfolio is further mitigated by a broad spectrum of clients.

The kpGroup's cash and cash equivalents are held in various banks. The Company limits the associated credit risk as a result of the kpGroup's policy to work only with respectable banks and financial institutions. This involves cash and cash equivalents being held at banks and financial institutions with a minimum rating of investment grade. The Company's policy aims to limit any concentration of credit risks involving cash and cash equivalents.

(f) Procurement (Commodity) Market Risk

The Company is exposed to risks associated with both the movements in the price of raw materials and sourcing of the Company's raw materials. The price of polymers and other raw materials is a function of supply and demand, suppliers' capacity utilization, industry and consumer sentiment, as well as the price of crude oil, natural gas and other feedstocks in the value chain. As such, the future development of raw material prices is difficult to predict. kpGroup procurement activities are generally geared towards improving the kpGroup's pricing position relative to prior years and to the overall market price level. This is generally measured by comparing discounts the kpGroup is able to obtain from Company suppliers compared to industry indices. The Company procurement department seeks to optimize pricing through the opportunistic entry into long-term supply agreements with select suppliers. At the same time, the kpGroup continuously analyzes whether the Company can further improve kpGroup's raw material costs through the substitution of materials or suppliers or outsourcing of supplies to lower cost countries.

(6) Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. kpGroup designates certain derivatives as either: (a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges); (b) hedges of highly probable forecast transactions (cash flow hedges).

kpGroup documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. kpGroup also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments are disclosed in note 16.

(a) Fair value estimation

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial instruments, which are measured in the statement of financial position at fair value according to IFRS 13, require additional disclosure of fair value measurements by level using the following fair value measurement hierarchy:

Level 1:	Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2:	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3:	Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The level in the fair value hierarchy within which the fair value measurement is categorised in total is determined on the basis of the lowest level input that is significant to the fair value measurement in total. The different hierarchy levels require different amounts of disclosure.

At December 31, 2021 and December 31, 2020, kpGroup's derivative financial instruments carried in the consolidated statements of financial position at fair value are categorised in total within level 2 of the fair value hierarchy.

(b) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statements of income (loss), together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(c) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in accumulated other comprehensive income. The gain or loss relating to the ineffective portion, if any, is recognized immediately in the consolidated statements of income (loss).

Amounts accumulated in equity are recycled in the consolidated statements of income (loss) in the periods when the hedged item will affect profit or loss (for instance if a forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated statements of income (loss). When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statements of income (loss).

Fair value estimation - The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. kpGroup uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for longterm debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated at the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of accounts receivable and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by using quoted prices in an active market, where available.

(7) Segment information

The Company's operations are organized into two reportable segments:

- Pharma, Health & Protection, and Durables
- Food Packaging

In Pharma, Health & Protection, and Durables (PHD) segment, kp focuses on providing sustainable, value-added film solutions which improve everyday life. PHD segment is organized into three product lines: (i) Pharma; (ii) Health & Protection; and (iii) Durables. Focus growth areas within the division are Pharma as well as Health & Protection product lines driving positive mix contribution. Product lines include barrier rigid films, mono rigid films, rigid films for medical device packaging, packaging films for consumer health application, shrink sleeve films, credit card films, graphics and home, building and construction films, kp focuses on providing sustainable, value-added film solutions which improve daily life.

In Food Packaging (FP) segment, kp provides sustainable packaging solutions ensuring food safety, hygiene and increased shelf life. FP segment is organized into three product lines: (i) Protein; (ii) Food-to-Go; and (iii) Fruit & Produce. Products include mono-layer and multi-layer rigid films, flexible films, trays, and punnets based on a wide variety of polymers. The films and trays are used in the packaging of fresh and pre-prepared foods, including salads, pasta, meat, cheese, fruit and fish. Our films and trays are designed to provide heat resistance and specialized barrier properties to protect against moisture and oxygen and to improve the appearance, appeal and shelf life of packaged food products. The Company focuses on attractive and resilient end-markets with high barriers to entry to drive above-market growth and increase market share.

Management assesses the performance of the segments based on the key performance indicators of net sales and adjusted EBITDA (Earnings Before Interest Taxes Depreciation and Amortization).

Segment key figures

Net sales include revenues generated primarily through the production and sale of rigid film.

Adjusted EBITDA is kp's key performance indicator for operating results. Although EBITDA before special items is not defined in IFRS, it is a key performance indicator for the Group as it represents normalized earnings for the business and enables comparability and performance evaluation on a consistent basis. Adjusted EBITDA is calculated by deducting certain income and gains and adding certain expenses and losses from or to EBITDA that management considers not being indicative of kp's operating performance. These exceptional items include, for example, operative restructuring expenses, refinancing related costs and transaction costs. The Company does not intend for these non-IFRS financial measures to be a substitute for any IFRS financial information. Readers should use these non- IFRS financial measures only in conjunction with the comparable IFRS financial measures.

The following table provides a segmental breakdown of net sales and adjusted EBITDA:

	Year ended December 31, 2021	Year ended December 31, 2020
Net sales		
Pharma, Health & Protection, and Durables	€ 1.004.143	€ 926.809
Food Packaging	942.130	865.080
Corporate/others*	165	372
Total net sales	1.946.438	1.792.261
Adjusted EBITDA		
Pharma, Health & Protection, and Durables	159.111	199.283
Food Packaging	116.589	146.083

	Year ended December 31, 2021	Year ended December 31, 2020
Corporate/others	(45.031)	(54.789)
Total adjusted EBITDA	230.669	290.577
Restructuring costs	(8.680)	(11.094)
Strategy costs	(5.271)	(2.542)
Share-based compensation	(854)	(1.414)
Insurance claims/(expenses)	1.505	(2.140)
Foreign exchange operating gain/(loss)	4.772	(7.207)
Other	(13.204)	(6.691)
Adjustments	(21.732)	(31.088)
Amortization/depreciation	(125.352)	(126.581)
Operating profit	83.585	132.908
Financial result	(141.557)	(72.099)
Income (loss) before taxes	(57.972)	60.809
Income tax benefits (expenses)	52.081	62.139
Net profit (loss)	(5.891)	122.948

* Net sales, corporate/other includes secondary business sales (mainly sales of scrap materials) less the consolidation impact of any sales between segments.

Information on major customers

Revenues from transactions with a single customer did not exceed 5% of kpGroup sales in the year ended December 31,2021.

Information on geographical areas

The following table provides a regional breakdown of external sales by market:

	Year ended December 31, 2021	Year ended December 31, 2020
Europe	€ 1.139.274	€ 1.041.932
of which Spain	180.206	173.937
of which United Kingdom	155.279	143.578
of which France	134.783	121.744
of which Germany	120.354	105.976
of which Italy	119.972	113.568
North America	493.864	465.090
of which USA	435.946	406.408
South America	98.763	91.466
of which Brazil	57.815	54.955
Asia Pacific	145.598	130.673
of which Australia	38.135	36.144
of which China	42.784	32.125
Rest of the World	68.939	63.100
Total net sales	1.946.438	1.792.261

The regional breakdown of non-current assets is as follows:

	December 31, 2021	December 31, 2020
Europe	€ 394.105	€ 401.427
of which Germany	200.173	199.089
of which United Kingdom	44.386	44.981
of which Italy	38.363	41.063
of which Spain	29.844	31.032
of which France	24.277	26.204
North America	238.847	226.385
of which USA	226.953	211.291
South America	12.514	14.082
of which Brazil	11.092	12.453
Asia Pacific	43.828	43.371
of which China	21.136	20.171
of which Australia	10.949	10.009
Total non current assets*	689.294	685.265

* Non-current assets represent property plant and equipment, intangible assets except goodwill and other non-financial assets.

(8) Expenses by nature

The following table presents the components of cost of goods sold, research and development, selling and general and administrative expenses:

	Year ended December 31, 2021	Year ended December 31, 2020
Cost of goods sold		
Material costs	€ 1.096.830	€ 875.237

	Year ended December 31, 2021	Year ended December 31, 2020
Employee benefit expenses	217.327	225.137
Outbound freight	87.185	82.962
Depreciation, amortization and impairment	76.837	78.978
Energy and fuel	70.649	51.792
Packaging material	42.834	41.885
Maintenance and outside services	27.785	32.906
Subcontracting/outside services	2.378	2.426
Other	36.297	21.967
Cost of goods sold	1.658.122	1.413.290
Research and development expenses		
Employee benefit expenses	€ 6.729	€ 8.479
Trial costs	2.001	2.181
Depreciation, amortization and impairment	1.048	766
Professional fees, consulting	723	719
Travel and entertainment	175	179
Other	996	1.313
Research and development expenses	11.672	13.637
Selling expenses		
Employee benefit expenses	€ 47.369	€ 55.141
Depreciation, amortization and impairment	35.381	36.426
Sales commission	6.288	6.459
Other	11.740	14.109
Selling expenses	100.778	112.135
General and administrative expenses		
Employee benefit expenses	€ 42.359	€ 52.063
Professional fees, audit and consulting	13.758	15.043
Depreciation, amortization and impairment	12.086	10.411
Other	12.805	13.256
General and administrative expenses	81.008	90.773

The expenses related to both short-term leases and leases of low-value assets were immaterial and recognized in other expense within the costs of goods sold, research and development, selling and general and administrative expenses.

(9) Employee benefit expenses

The following table presents the components of employee benefit expenses:

	Year ended December 31, 2021	Year ended December 31, 2020
Wages and salaries costs	€ 259.146	€ 285.376
Social security costs	47.245	48.363
Pension costs - defined contribution plans	5.220	4.869
Pension costs - defined benefit plans	2.173	2.212
Other	6.191	3.641
Employee benefit expenses	319.975	344.461

Employee benefit expenses in the amount of € 854 (€ 1.414 in year ended December 31, 2020) relate to share based compensation.

The “Other” employee benefit expenses include personnel restructuring expenses in the amount of € 6.191 (€ 3.641 in year ended December 31,2020). Please see note 10.

Overall headcount decreased by 81 employees from 5.391 employees as of December 31, 2020 to 5.310 employees as of December 31,2021.

(10) Other operating income and expenses

	Year ended December 31, 2021	Year ended December 31, 2020
Foreign operating exchange gains	€ 53.036	€ 51.411
Income from public/private grants	1.117	781
Gain on disposal of fixed and financial assets	380	300
Other	4.399	3.696
Other operating income	58.932	56.188

Received public and private grants for investments are released over time and recorded as a gain to “Other operating income" in accordance with the respective grant terms. Please refer to note 28.

	Year ended December 31, 2021	Year ended December 31, 2020
Foreign operating exchange losses	€ 48.264	€ 58.618
Other restructuring expenses	8.680	11.094
Other taxes	3.446	3.436

	Year ended December 31, 2021	Year ended December 31, 2020
Other	10.051	12.643
Other operating expenses	70,441	85.791

The other restructuring expenses include personnel expenses in the amount of € 6.191 (€ 3.641 in year ended December 31, 2020) based on individual settlement agreements or on negotiation with defined employees.

Other operating expenses primarily include expenses related to strategic projects in the amount of € 5.271 (€ 2.542 in the year ended December 31, 2020) and integration costs in the amount of € 838 (€ 387 in the year ended December 31, 2020).

(11) Interest expense

	Year ended December 31, 2021	Year ended December 31, 2020
Senior secured term loan	€ 62.985	€ 76.272
Senior secured and unsecured note	32.674	-
Loss on debt extinguishment	9.572	-
Amortization of deferred debt issuance costs	7.311	6.678
Other interest on local financing	4.906	5.260
Interest on lease liabilities	4.897	3.263
Commitment fee	1.181	-
Interest rate swaps and caps	(452)	755
Other	16	485
Interest expense	123.090	92.713

Interest expense for the year ended December 31, 2021 consists primarily of interest on the senior secured term loan including interest expense on the revolver credit facility in the amount of € 62.985 (€ 76.272 for the year ended December 31, 2020) and interest expense on new senior secured and unsecured note and prepayment penalty in the amount of € 32.674.

The loss on debt extinguishment is related to the write-off of the deferred debt issuance costs relating to the 2017 term loans, which have been refinanced and treated as debt extinguishment. As a result of the refinancing, interest is recorded on the term loan and the notes issued. See note 24.

In 2021, the interest on factoring has been recorded as financing costs instead of interest expense, as management assessed that as a more appropriate presentation within financial results. Prior period comparatives have been reclassified accordingly for consistent presentation. As a result, financing costs increased (and interest expense decreased) by € 5.764 for the year ended December 31, 2020.

The amortization of the deferred debt issuance costs relates to the following borrowings:

	Year ended December 31, 2021	Year ended December 31, 2020
Senior secured term loan	€ 7.241	€ 5.986
Revolving credit facility	70	692
Amortization of deferred debt issuance costs	7.311	6.678

(12) Income tax expenses/benefits

	Year ended December 31, 2021	Year ended December 31, 2020
Current tax on profits for the year	€ 14.880	€ 25.808
Adjustment for current tax of prior year	(4.537)	(8.465)
Current tax expenses	10.343	17.343
Origination and reversal of temporary differences	(6.391)	978
Change of Tax Loss Carryforwards / Tax Credits	(48.396)	(71.106)
Adjustments for changes in tax rates	730	2.809
Adjustments for prior year deferred tax	(8.367)	(12.163)
Deferred tax benefits	(62.424)	(79.482)
Income tax expenses (benefits)	(52.081)	(62.139)

As the Group pivots into the Growth phase resulting in strong performance in the underlying business during the year which is expected to continue across the forecast period, the group has reviewed its deferred tax asset position together with its expected utilisation of its tax attributes and sought to recognise additional deferred tax assets of € 57.264.

As a result additional deferred tax assets in respect of tax losses have been recognised in UK, France and Australia which is a key rate driver for the group in the FY 2021 period.

Current tax charges continue to accrue in the group's material territories such as France, Italy, Spain, US and Brazil.

The current tax calculation is impacted by permanent differences largely made up of non-deductible expenses largely offset by a non-taxable inflation adjustment in Argentina.

Contingent liabilities give rise to a total provision across the group of € 1.936 (€ 4.551 in FY 2020) and has reduced primarily as the result of the closure of a German tax enquiry and reduction in US provisions due to statute of limitations.

Deferred income tax charged to equity amounts to € 4.383 in FY 2021 € (464) in FY 2020.

In Germany corporations are subject to a corporation tax rate (including solidarity surcharge) of 15,83%. In addition, German corporations are subject to a municipal trade tax on income varying in rates from 11% to 16% depending on the municipality. For the fiscal year ended December 31, 2021 an effective municipal trade tax rate of 12,43% (12,45% in FY 2020) was considered.

The standard rate of UK corporation tax is 19% and this took effect from April 1, 2017. However, in March 2021, Finance Bill 2021 included measures to increase the standard rate of UK corporation tax to 25% with effect from April 1, 2023. Finance Bill 2021 was enacted in June 2021 and accordingly, these rates are applicable in the measurements of the deferred tax assets and liabilities at December 31, 2021. For the purposes of the UK Deferred tax asset calculation the unwind of the deferred tax asset prior to April 1, 2023 has been modelled and a UK hybrid rate of 24,5% used to measure deferred tax as at the balance sheet date (FY 2020 deferred tax rate - 19%).

In France corporations are subject to a corporation tax rate of 27,37% (FY 2020 - 28,54%). On December 17, French Parliament approved the Finance Bill for 2021. Except for the constitutionality review by the Conseil constitutionnel (French Constitutional Council), the bill is final.

After a first decrease in FY 2021 the corporate income tax rate is due to decrease to 25,83% from FY 2022 onwards. Deferred tax is calculated at 25,83% given the balance of deferred tax attributes is expected to unwind following the periods starting FY 2022.

In the United States, corporations are subject to federal income tax which - beyond certain thresholds - amounts to 21% of the taxable income. In addition, corporations are subject to state income taxes. These state income taxes are deductible for federal tax purposes. For FY 2020 the considered average state tax rate net of federal tax benefit was 2,30% (2,16 % in FY 2020).

For a reconciliation of the statutory tax rates to the effective income tax rates, the domestic tax rate of Luxembourg was chosen. The effective rate in FY 2021 is 24,94% (24,94% in FY 2020), being corporate income tax (CIT) 18,19% (18,19% in FY 2020) including solidarity surcharge, municipal business tax (MBT) (Lux City) 6,75% (6,75% in FY 2020).

The domestic rate of Luxembourg was used in the effective tax rate reconciliation because the company is headquartered in Luxembourg.

The principal reconciling items from income tax computed at the Luxembourg statutory tax rate of 24,94% for the periods ended December 31 were as follows:

Tax reconcilation	Year ended December 31 2021	Year ended December 31 2020
Expected tax expense	€ (12.467)	€ 15.166
Foreign tax rate differences	(1.995)	3.508
Non recognition of deferred tax assets / valuation allowances	(28.495)	(64.583)
Total permanent differences (goodwill impairment, non deductible items and non taxable items)	199	2.009
Outside basis differences	-	-
Adjustments for tax of prior periods	(12.904)	(20.415)
Changes in tax rates	2.724	2.809
Withholding taxes/other	857	(633)
Income taxes	(52.081)	(62.139)

(13) Cash and cash equivalents

	December 31, 2021	December 31, 2020
Cash at bank	€ 101.979	€ 136.333
Checks in transit	148	1.182
Cash	102.127	137.515

As of December 31, 2021, € 32.564 of cash is pledged as securities for liabilities (€ 4.720 as of December 31, 2020).

(14) Restricted cash

	December 31, 2021	December 31, 2020
Current	€ 796	€ 292
Non-current	3.052	3.457
Restricted cash	3.848	3.749

As of December 31, 2021 the amount of cash collateral for workers' compensation is € 1.012 (€ 1.195 as of December 31, 2020). The non-current portion is included in "other non-current assets" on the balance sheet. Please refer to note 18.

(15) Accounts receivable

As of December 31, 2021, all non-impaired accounts receivable are due within one year. The accounts receivable position consists mainly of trade receivables. Trade receivables are non-interest bearing.

The maximum exposure to credit risk at the reporting date is the book value of trade receivables.

	December 31, 2021	December 31, 2020
Third parties	€ 121.360	€ 118.183
Allowance	(8.048)	(8.005)
Accounts receivable third parties	113.312	110.178
Associated enterprises	187	229
Non-consolidated companies	71	304
Accounts receivable (net)	113.570	110.711

Valuation allowances are recorded for receivables if there are circumstances which indicate impairment, such as known customer disputes/claims, deterioration in the creditworthiness of a debtor, etc. Further, overdue reports are used for determining individual valuation allowances. The bad debt expense has been included in "selling expenses" in the consolidated statement of income (loss).

As of December 31, 2021, € 22.714 of accounts receivable were pledged as security for liabilities (€ 14.662 as of December 31, 2020).

The following table shows the development of the valuation allowance:

	Year ended December 31, 2021	Year ended December 31, 2020
Allowance at the beginning of the period,	€ 8.005	€ 11.773
Allowance recognized as net expense	674	(337)
Use	(487)	(2.968)
Currency translation difference	(144)	(463)
Allowance at December 31	8.048	8.005

With respect to the accounts receivable that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations. An analysis of the age of the accounts receivable that are past due but not impaired as of the reporting date is presented in the table below:

	Gross value not overdue not impaired receivables	overdue and not impaired				
	December 31, 2021	less than 30 days	between 31 days and 60 days	between 61 days and 90 days	between 91 days and 180 days	between 181 days and 360 days
Accounts receivable	€ 73.539	€ 31.706	€ 5.229	€ 918	€ 596	€ 1.582

	Gross value not overdue not impaired receivables	overdue and not impaired				
	December 31, 2020	less than 30 days	between 31 days and 60 days	between 61 days and 90 days	between 91 days and 180 days	between 181 days and 360 days
Accounts receivable	€ 82.189	€ 24.538	€ 2.298	€ 1.209	€ 294	€ 183

In order to provide additional liquidity and to reduce the Company's exposure to the credit risk of certain customers, the Company factors a significant portion of its accounts receivable without recourse. When the Group sells its receivables it retains immaterial obligations. These retained interests mainly consist of servicing as well as providing dilution reserves.

Effective January 1, 2020, a new contract with Coface Finanz GmbH was signed for the German and US factoring facility. The new German factoring facility has an overall limit of € 110.000 and the new US facility of kUSD 80.000. In addition, the Group entered into a new Canadian facility with Coface Finanz GmbH with an overall limit of kUSD 11.000 effective date January 29, 2025. The Company entered into new Mexican facility with Coface Finanz GmbH with an overall limit of kUSD 3.300 effective date March 30, 2025.

Facility	Term	Factoring Company	Factoring Facility	Sold at December 31, 2021*	Sold at December 31, 2020*
German Factoring Facility	January 2, 2025	Coface Finanz GmbH	€ 110.000	€ 99.938	€ 73.401
Canadian Factoring Facility	January 29, 2025	Coface Finanz GmbH	kUSD 11.000	kUSD 4.416	kUSD 3.333
Mexican Factoring Facility	March 30, 2025	Coface Finanz GmbH	kUSD 3.300	kUSD 2.565	kUSD 1.946
US Factoring Facility	January 2, 2025	Coface Finanz GmbH	kUSD 80.000	kUSD 71.115	kUSD 58.352
LINPAC Factoring Facility	December 31, 2024	Coface Finanz GmbH	See note below#	€ 90.326	€ 64.976

* Gross amount, does not include related purchase price retention

For the Linpac factoring facility, the Group has entered into an agreement with Coface Finanz Gmbh for a maximum combined facility of € 270.000 with restrictions that the maximum facility for Infia Sri and Linpac Verona Sri shall not exceed € 20.000, and the overall limit of all other companies in the Group (other than KP America Inc. and KP Europe Gmbh & Co. KG) shall not exceed € 130.000.

As of December 31, 2021, accounts receivable were reduced by factoring in the amount of € 259.217 (December 31, 2020: € 190.232).

The related purchase price retention (dilution reserve) as at December 31, 2021 was € 6.789 (December 31, 2020: € 15.536) and is presented in "other current assets".

(16) Derivative financial instruments

	December 31, 2021	December 31, 2020
Current assets		
Interest rate caps	€ 3.270	€ -
Foreign currency forwards	57	-
Foreign currency forwards - cash flow hedges	6	3
Total current derivative financial instrument assets	3.333	3
Non-current assets		
Interest rate caps	-	16
Total non-current derivative financial instrument assets	-	16
Current liabilities		
Foreign currency forwards	(55)	(37)
Foreign currency forwards - cash flow hedges	(20)	(6)
Interest rate swaps - cash flow hedges	(11)	-
Foreign currency forwards - fair market value hedges	-	(1)
Total current derivative financial instrument liabilities	(86)	(44)

kpGroup uses derivative financial instruments, such as foreign exchange forwards and interest rate derivatives to hedge its exposure to interest rate and foreign currency risks. kpGroup does not use financial derivative instruments for speculative purposes.

For the local financing in Turkey the Company has an obligation to maintain a hedge ratio of 50% for the local loan facility. Therefore, the Company entered into an interest rate swap with the notional value of kTRY 5.688 with expiry date October 31, 2022. The fixed rate of the TRY swap is 15,60 % per annum.

Further, kpGroup has no obligation to maintain interest rate hedging for the aggregate principal amount of the Company's consolidated third party indebtedness (including revolving loan and factoring facilities). Nevertheless, kpGroup has decided to manage the interest rate risk exposure under the first lien facilities with interest rate caps. As of December 31, 2021, the Company holds interest rate caps with the notional values of:

a) kUSD 626.000 with a cap rate of 2,50% that expires June 30, 2022

b) € 544.000 with a cap rate of 0,50% that expires June 30, 2022

c) kUSD 543.750 with a cap rate of 2,50% that expires December 31, 2024

d) € 450.000 with a cap rate of 1,00% that expires December 31, 2024

The Company enters into foreign currency forward contracts to hedge transactions denominated in foreign currencies. These transactions are primarily forecasted revenues or purchases of raw materials. Foreign currency price risks are hedged for periods from one to six months within defined maturity bands. The foreign currency forward contracts are designated as the hedging instrument for cash flow hedges, fair value hedges, or not designated for hedge accounting as appropriate.

The maturity of the current and non-current derivative liabilities measured at their fair value at December 31, 2021 and December 31, 2020 can be analyzed as follows:

		Of which cash-in-/outflow will be in				
Carrying amount	December 31, 2021	less than 30 days	between 31 days and 60 days	between 61 days and 90 days	between 91 days and 180 days	between 181 days and 360 days
Current derivative financial liabilities	€ (86)	€ (47)	€ (19)	€ (20)	€ -	€ -

		Of which cash-in-/outflow will be in				
Carrying amount	December 31, 2020	less than 30 days	between 31 days and 60 days	between 61 days and 90 days	between 91 days and 180 days	between 181 days and 360 days
Current derivative financial liabilities	€ (44)	€ (19)	€ (19)	€ (6)	€ -	€ -

(17) Inventories

	December 31, 2021	December 31, 2020
Raw materials, supplies, goods for merchandise	€ 119.583	€ 78.497
Finished goods	84.937	74.751
Work in progress	32.588	27.908
Allowances	(19.434)	(21.985)
Inventories	217.674	159.171

Of the total inventory as of December 31,2021, € 42.025 was valued at net realizable value (€ 47.954 as of December 31,2020).

As of December 31, 2021, € 56.194 of inventories was pledged as securities for liabilities (€ 30.159 as of December 31, 2020).

(18) Other assets

	December 31, 2021	December 31, 2020
Factoring dilution reserve	€ 6.789	€ 15.536
Vendor rebates receivable	16.119	14.192
Refundable taxes	25.230	12.882
Prepaid expenses and advance payments	7.878	5.090
Other receivables from group companies (incl. the general partner and shareholder of Kleopatra Holdings 2 S.C.A.)	1.310	789
Insurance claims	598	136
Duties	138	127
Receivables from employees	135	65
Receivables from governmental authorities	19	9
Other	3.873	4.165
Other current assets	62.089	52.991

As of December 31, 2021, € 12.081 of other assets is pledged as securities for liabilities (€ 5.005 as of December 31,2020).

The table below shows the breakdown of the non-current assets:

	December 31, 2021	December 31, 2020
Non-current		
Loans to shareholder	€ 9.937	€ 9.934
Restricted cash	3.052	3.457
Deferred expense	-	813
Investments in non-consolidated parent companies	177	177
Other	693	818
Other non-current assets	13.859	15.199

The shareholder loan carries an interest rate of 5,17% and expires at July 20, 2025.

(19) Intangible assets

	Goodwill	Non-compete	Acq. software	Customer list	Patent, licence, trade mark	Technology	Other intang. assets	Total
Acquisition cost								
Balance at January 1, 2021	€ 209.425	€ 44	€ 48.437	€ 360.818	€ 35.899	€ 92.783	€ 2.999	€ 750.405
Additions	-	-	2.436	-	22	29	-	2.487
Reclassifications	-	-	2.007	-	(27)	-	-	1.980
Disposals	-	-	(113)	-	(20)	-	-	(133)
Currency translation adjustments	93	(18)	804	17.280	(376)	2.952	20	20.755
Balance at December 31, 2021	209.518	26	53.571	378.098	35.498	95.764	3.019	775.494
Amortization /impairment								

	Goodwill	Non-compete	Acq. software	Customer list	Patent, licence, trade mark	Technology	Other intang. assets	Total
Balance at January 1, 2021	€ (26.237)	€ (44)	€ (34.338)	€ (231.942)	€ (20.523)	€ (91.837)	€ (1.869)	€ (406.790)
Amortization	-	-	(7.543)	(27.718)	(2.386)	(981)	(332)	(38.960)
Reclassifications	-	-	-	-	-	-	-	-
Disposals	-	-	72	-	17	-	-	89
Currency translation adjustments	(93)	18	(714)	(10.209)	216	(2.917)	(7)	(13.706)
Balance at December 31, 2021	(26.330)	(26)	(42.523)	(269.869)	(22.676)	(95.735)	(2.208)	(459.367)
Net book value								
December 31, 2020	183.188	-	14.099	128.876	15.376	946	1.130	343.615
December 31, 2021	183.188	-	11.048	108.229	12.822	29	811	316.127

	Goodwill	Non-compete	Acq. software	Customer list	Patent, licence, trade mark	Technology	Other intang. assets	Total
Acquisition cost								
Balance at January 1, 2020	€ 209.372	€ 60	€ 41.314	€ 381.180	€ 35.558	€ 96.049	€ 2.830	€ 766.363
Additions	-	-	2.065	-	699	-	4	2.768
Reclassifications	-	-	6.693	-	-	-	187	6.880
Disposals	-	-	(41)	-	(1)	-	-	(42)
Currency translation adjustments	53	(16)	(1.594)	(20.362)	(357)	(3.266)	(22)	(25.564)
Balance at December 31, 2020	209.425	44	48.437	360.818	35.899	92.783	2.999	750.405
Arnortization/impairment								
Balance at January 1, 2020	€ (26.184)	€ (60)	€ (27.263)	€ (214.809)	€ (17.618)	€ (90.591)	€ (1.181)	€ (377.706)
Amortization	-	-	(6.747)	(28.256)	(2.416)	(4.352)	(487)	(42.258)
Reclassifications	-	-	(1.515)	-	(647)	-	(205)	(2.367)
Disposals	-	-	41	-	-	-	-	41
Currency translation adjustments	(53)	16	1.146	11.123	158	3.106	4	15.500
Balance at December 31, 2020	(26.237)	(44)	(34.338)	(231.942)	(20.523)	(91.837)	(1.869)	(406.790)
Net book value								
December 31, 2019	183.188	-	14.051	166.371	17.940	5.458	1.649	388.657
December 31, 2020	183.188	-	14.099	128.876	15.376	946	1.130	343.615

The additions in acquired software and other intangible assets mainly relate to additional licenses for the enterprise resource planning and operating system and upgrades.

Amortization expense of acquired software and other intangible assets was charged to cost of goods sold, selling expenses and general and administrative expenses.

Impairment testing

Goodwill is tested annually for impairment and using the values as of October 1.

The goodwill impairment test for the period ended December 31, 2021 resulted in no goodwill impairment.

In the goodwill impairment tests the recoverable amount was based on the value in use. The underlying cash flow forecasts are each based on the three-year business planning.

The values for the risk-free interest rate, the market risk premium and the beta factors are determined using external sources of information. The Company is using the cost of debt based on a peer group for calculating the Weighted Average Cost of Capital (WACC). Business-specific beta factors are determined based on a respective group of peer companies. Variations in all these components might impact the calculation of the discount rates.

Any impairment loss is recognized immediately as an expense and will not be subsequently reversed.

The forecast is based on the experience, current performance and best possible management estimates on the future development of the individual parameters. The key parameters which were estimated to determine future cash flows include assumptions for sales volume, selling prices, raw material prices, labor and other employee benefit costs, capital additions and other economic or market-related factors. Earnings projections beyond the initial three periods are assumed to increase by converging towards a constant long-term growth rate, which is based on expectations for the development of Gross Domestic Product (GDP) and inflation and are captured in the terminal value.

Volume growth drivers underlying the business plan are based on general market trends such as a growing and aging population, urban lifestyles driving the consumption of convenience products and product health and safety protection.

Significant management judgment is involved in estimating the future business performance, and this includes inherent uncertainties. For example, business performance could be impacted by unanticipated changes in competition, customer sourcing requirements and product maturity.

For impairment testing, the carrying amount of goodwill is allocated to the cash generating units, which represents the lowest level at which goodwill is monitored internally for management purposes.

	December 31, 2021	December 31, 2020
Food Packaging	€ 75.156	€ 75.156
Pharma, Health & Protection, and Durables	108,032	108.032
Goodwill	183.188	183.188

The Company employs a WACC approach to determine the discount rate for goodwill recoverability testing. The Company’s WACC calculation includes factors such as the risk free rate of return, cost of debt and expected equity premiums. The factors in this calculation are largely external to kpGroup, and therefore are beyond Company’s control. The Company believes the usage of a discounted cash flow approach is the most reliable indication of the fair value of the business.

The key assumptions used in the discounted cash flow model (for example, the WACC and the longterm growth rate) are sensitized to test the resilience of value in use.

The Company believes the current assumptions and other considerations used in the above estimates are reasonable, appropriate and achievable. A material adverse change in the estimated future cash flows of the kpGroup's business or significant increases in the WACC rate could result in the fair value falling below the book value of its net assets. This could result in a material impairment charge.

In the year ended December 31, 2021, the Company applied the most recent assumptions for the calculation of the recoverable amount. The assumptions are carried forward from the impairment testing performed in December 31, 2020, based on meeting the criteria in IAS 36 Impairment of Assets.

The following table summarizes the major factors used for the impairment testing:

December 31, 2021	Food Packaging	Pharma, Health & Protection, and Durables
Terminal value growth rate	1,33%	1,81%
WACC	6,19%	7,28%

The value obtained from the model calculation was subject to a stress test by increasing WACC, decreasing the growth rate by one percentage point and increasing the discount rate by one percentage point.

From a sensitivity standpoint, a hundred basis points increase in the WACC will result in an approximate decrease in value in use of € 370.000 for Pharma, Health & Protection, and Durables, and € 308.400 for Food Packaging. A one percentage point decrease in the growth rate will result in an approximate decrease in value in use of € 334.500 for Pharma, Health & Protection, and Durables, and € 288.400 for Food Packaging. Neither of the above described changes would result in an impairment.

(20) Property, plant and equipment

	Land and buildings	Technical equipment and machines	Other equipment, factory and office equipment	Advance payments and construction in progress	Total
Acquisition cost					
Balance at January 1, 2021	€ 271.046	€ 911.349	€ 37.106	€ 34.403	€ 1.253.904
Additions	1.328	21.833	1.782	37.645	62.588
Reclassifications	8.031	11.565	212	(9.016)	10.792
Disposals	(403)	(9.033)	(561)	(83)	(10.080)
Currency translation adjustments	7.642	21.061	727	2.693	32.123
Balance at December 31, 2021	287.644	956.775	39.266	65.642	1.349.327
Depreciation/impairment					
Balance at January 1, 2021	€ (131.158)	€ (642.715)	€ (30.096)	€ -	€ (803.968)
Depreciation	(12.117)	(45.694)	(2.441)	-	(60.252)
Reclassifications	(518)	(7.805)	706	-	(7.617)
Disposals	352	8.119	380	-	8.851
Currency translation adjustments	(2.828)	(15.522)	(621)	-	(18.971)
Balance at December 31, 2021	(146.269)	(703.617)	(32.072)	-	(881.957)
Net book value					
December 31, 2020	139.888	268.634	7.010	34.403	449.936
December 31, 2021	141.375	253.158	7.194	65.642	467.370

	Land and buildings	Technical equipment and machines	Other equipment, factory and office equipment	Advance payments and construction in progress	Total
Acquisition cost					
Balance at January 1, 2020	€ 272.552	€ 931.119	€ 11.004	€ 31.461	€ 1.246.136
Additions	2.452	33.443	1.909	31.203	69.007
Reclassifications	7.860	(18.236)	25.980	(24.580)	(8.976)
Disposals	(1.026)	(2.439)	(438)	(84)	(3.987)
Currency translation adjustments	(10.792)	(32.538)	(1.349)	(3.597)	(48.276)
Balance at December 31, 2020	271.046	911.349	37.106	34.403	1.253.904
Depreciation/impairment					
Balance at January 1, 2020	€ (114.078)	€ (648.445)	€ (7.723)	€ -	€ (770.246)
Depreciation	(14.545)	(48.054)	(3.316)	-	(65.915)
Impairment	-	(216)	-	-	(216)
Reclassifications	(6.669)	32.335	(20.452)	-	5.214
Disposals	316	1.373	427	-	2.116
Currency translation adjustments	3.818	20.293	968	-	25.079
Balance at December 31, 2020	(131.158)	(642.714)	(30.096)	-	(803.968)
Net book value					
December 31, 2019	158.474	282.674	3.281	31.461	475.890
December 31, 2020	139.888	268.635	7.010	34.403	449.936

As of December 31, 2021, € 162.884 of property, plant and equipment are pledged as securities for liabilities (€ 72.144 as of December 31, 2020).

The major projects and investments were in support to expand capacities, increase automatization and buildings.

Capital expenditures contracted at the balance sheet date but not yet incurred are as follows:

	December 31, 2021	December 31, 2020
Capital commitments	€ 20.269	€ 20.186

(21) Right-of-use assets

The following table presents the amounts relating to the right-of-use assets:

	Land and buildings	Technical equipment and machines	Other equipment, factory and office equipment	Total
Acquisition cost				
Balance at January 1, 2021	€ 63.082	€ 36.904	€ 23.100	€ 123.086
Additions	627	471	2.880	3.978
Remeasurements	27.780	1.737	9.625	39.142
Reclassifications	(14.357)	(1.120)	-	(15.477)
Disposals	-	(213)	(1.731)	(1.944)
Currency translation adjustments	914	998	1.639	3.551
Balance at December 31, 2021	78.046	38.777	35.513	152.336
Depreciation/impairment				
Balance at January 1, 2021	(26.201)	(12.827)	(8.807)	(47.835)
Depreciation	(8.916)	(6.800)	(10.420)	(26.136)
Remeasurements	4	-	29	33
Reclassifications	9.860	470	-	10.330
Disposals	-	213	1.731	1.944
Currency translation adjustments	16	(569)	(929)	(1.482)
Balance at December 31, 2021	(25.237)	(19.513)	(18.396)	(63.146)
Net book value				
January 1, 2021	36.881	24.077	14.293	75.251
December 31, 2021	52.809	19.264	17.117	89.190

The remeasurements relate to extensions and modifications of lease terms for existing leases.

In FY2021 the total cash outflow for leases was € 31.420, with principal portion of the lease payments amounting to € 26.523 and the interest portion of the payments in the amount of € 4.897.

(22) Investments accounted for using the equity method

The investment in Vinyl Solutions LLC, Atlanta/USA, is accounted for using the equity method. kpGroup’s share is 50%.

	December 31, 2021	December 31, 2020
Interest held	50%	50%
Balance at January 1,	€ 66	€ -
Equity in earnings	246	85
Equity method loss adjustment	(37)	(85)
Reclassifications	-	66
Investment in Vinyl Solutions LLC at December 31	275	66

In prior years, Vinyl Solutions LLC generated a loss, which exceeded the investment; the additional contribution obligation has been recognized as provision in “Provision for other liabilities and charges”. In fiscal year 2021 the additional contribution obligation has been reduced by the equity earnings and other reclassifications in the amount of € 37 to € 0.

As of December 31, 2021, the Group is in the process of dissolving the investment in Vinyl Solutions LLC.

The following table presents key financial figures of the joint venture:

	December 31, 2021	December 31, 2020
Vinyl Solutions LLC, Atlanta/USA		
Current assets	€ 113	€ 7.350
Current liabilities	301	7.424
Revenues	1.449	4.344
Interest expenses	(17)	(90)
Result	472	169

(23) Accounts payable

	December 31, 2021	December 31, 2020
Third parties	€ 307.732	€ 206.079
Associated entities and non consolidated subsidiaries	206	312
Accounts payable	307.938	206.391

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

At December 31, 2021, accounts payable in the amount of € 7.495 are related to capital expenditures (€ 4.586 at December 31, 2020).

(24) Debts

The Company has the following debt arrangements in place:

	December 31, 2021	December 31, 2020

	December 31, 2021	December 31, 2020
Senior secured term loan	€ 6.401	€ 6.805
Deferred debt issuance costs - senior secured term loan	(107)	(2.205)
Other bank borrowings	45.372	13.836
Deferred debt issuance costs - other bank borrowings	(3)	(14)
Short-term debt	51.663	18.422
Senior secured term loan	1.228.918	1.376.546
Deferred debt issuance costs - senior secured term loan	(22.036)	(8.867)
Senior secured and unsecured notes	700.000	-
Deferred debt issuance costs - senior secured and unsecured notes	(10.952)	-
Other bank borrowings	20.423	58.397
Deferred debt issuance costs - other bank borrowings	(189)	(37)
Long-term debt	1.916.164	1.426.039
Total debt	1.967.827	1.444.461

On February 12, 2021, the Group refinanced its capital structure with JPMorgan as lead arranger. The refinancing provided the Group with funding of:

a) Senior Secured Notes of € 400.000 issued by Kleopatra Finco S.à r.l. (“2021 Senior Secured Notes”) maturing on March 1, 2026, listed on the International Stock Exchange (“TISE”) in St. Peter Port, Guernsey

b) Senior Unsecured Notes of € 300.000 issued by Kleopatra Holdings 2 S.C.A. (“2021 Senior Unsecured Notes”) maturing on September 1, 2026, listed on the International Stock Exchange (“TISE”) in St. Peter Port, Guernsey

c) Term loan of € 600.000 issued by KP Germany Erste GmbH & Co. KG and Klockner Pentaplast of America Inc. (“2021 Senior Secured EUR Term Loan") maturing on February 12, 2026

d) Term loan of kUSD 725.000 issued by Klöckner Pentaplast of America Inc. (“2021 Senior Secured USD Term Loan”) maturing on February 12, 2026

e) Revolving Credit Facility of € 150.000 (“2021 Revolving Credit Facility”) maturing on August 12, 2025, that was not drawn as of December 31, 2021

The cash proceeds received from the refinancing were used to fund the repayment of the 2017 Senior Secured Term Loan that existed as of December 31, 2020, financing costs associated with the transaction, and Dividend to Shareholder of € 481.051.

The transaction costs relating to the refinancing are capitalized as deferred debt issuance costs. The balance of deferred debt issuance costs (including original issue discount) net of amortization amounted to € 33.095 as of December 31, 2021 (amounts paid are shown in financing section in Statements of Cash Flows).

The repayment of the 2017 Senior Secured Term Loan was treated as a debt extinguishment, and as a result, the balance of the deferred debt issuance costs of € 9.572 that is related to this is immediately expensed to interest expense in financing costs. See note 11.

The issuer of the 2021 Senior Secured Notes, Kleopatra Finco S.à r.l., and several of its subsidiaries, as borrowers and guarantor, entered into a Senior Credit Facilities Agreement, comprising the 2021 Senior Secured Notes, 2021 Senior Unsecured Notes, 2021 Senior Secured EUR Term Loan, 2021 Senior Secured USD Term Loan, and the 2021 Revolving Credit Facility.

The 2021 Senior Secured EUR Term Loan and 2021 Senior Secured USD Term Loan has one financial covenant that will only come in effect if the Revolving Credit Facility is drawn by more than 40% net (drawing minus cash). At this stage the maximum Senior Secured Net Leverage ratio may not exceed 8,90 : 1,00. The 2021 Senior Secured Notes and 2021 Senior Unsecured Notes have market standard incurrence and affirmative covenants.

As of December 31, 2021, the market price and fair value of the facilities are:

a) 2021 Senior Secured Notes is 96.375 of par value of 100; fair value of € 385.500

b) 2021 Senior Unsecured Notes is 91.500 of par value of 100; fair value of € 274.500

c) 2021 Senior Secured EUR Term Loan is 96.958 of par value of 100; fair value of € 581.748

d) 2021 Senior Secured USD Term Loan is 97.094 of par value of 100; fair value of € 616.857

As of December 31, 2021, the interest rates are:

a) 2021 Senior Secured Notes is 4,25%

b) 2021 Senior Unsecured Notes is 6,50%

c) 2021 Senior Secured EUR Term Loan is 4,75% (EURIBOR with a floor of 0,00% + 4,75%)

d) 2021 Senior Secured USD Term Loan is 5,25% (USD LIBOR with a floor of 0,50% + 4,75%)

For the local financing in Turkey the Company has an obligation to maintain a hedge ratio of 50% for the local loan facility. Therefore, the Company entered into an interest rate swap with the notional value of kTRY 5.688 with expiry date October 31, 2022. The fixed rate of the TRY swap is 15,60% per annum.

Further, kpGroup has no obligation to maintain interest rate hedging for the aggregate principal amount of the Company’s consolidated third party indebtedness (including revolving loan and factoring facilities). Nevertheless, kpGroup has decided to manage the interest rate risk exposure under the first lien facilities with interest rate caps. As of December 31, 2021, the Company holds interest rate caps with notional value of kUSD 626.000 and € 544.000. The cap rate of USD cap is 2,50%, the cap rate of the EUR cap is 0,50%. The interest rate caps expire on June 30, 2022.

To manage the interest rate risk exposure for the refinanced debt, KpGroup has entered on March 23, 2021 into another cap for kUSD 543.750 and € 450.000 that starts on June 30, 2022, and expires December 31, 2024. The cap rate of USD cap is 2,50%, and the cap rate of the EUR cap is 1,00%.

Revolving credit facility

On February 12, 2021, as part of the refinancing, the Company entered into a multicurrency 2021 Revolving Credit Facility in the amount of € 150.000. As of December 31, 2021, the revolving credit facility was not drawn.

Other bank borrowings

Other bank borrowings represent facilities entered into locally by subsidiaries of the Company, including loan facilities, revolving credit facilities and overdrafts.

The Company’s debts were denominated in the following currencies:

	December 31, 2021	December 31, 2020
Euro	€ 1.322.644	€ 755.027
US-Dollar	646.765	658.351
Australian Dollar	30.740	30.196
British Pound	-	9.455
Turkish Lira	965	2.555
Debt	2.001.114	1.455.584

Maturity

The maturities for debts are as follows (not including unamortized deferred debt issuance costs):

	December 31, 2021	December 31, 2020
Up to 2 years	€ 67.808	€ 1.437.595
Between 3 and 4 years	21.941	15.160
In year 5 and later	1.911.365	2.829
Debt	2.001.114	1.455.584
less: unamortized deferred debt issuance costs	(33.287)	(11.123)
Total debt	1.967.827	1.444.461

The following table shows the contractual amounts (undiscounted) of interest payments and repayments of the non-current financial liabilities. Planning data for future, new liabilities are not included. Amounts in foreign currency were each translated at the closing rate. For greater transparency the financial instruments are analysed separately.

		Cash flows 2022		
Non-current financial liabilities	Carrying amount	Fixed interest rate	Variable interest rate	Principal
Senior secured term loan	€ 1.228.918	€ -	€ (62.663)	€ -
Senior secured and unsecured notes	700.000	(37.007)	-	-
Other bank borrowings	20.423	(746)	(1.195)	-
	1.949.341			

	Cash flows 2023		
Non-current financial liabilities	Fixed interest rate	Variable interest rate	Principal
Senior secured term loan	€ -	€ (62.322)	€ (4.801)
Senior secured and unsecured notes	(37.007)	-	-
Other bank borrowings	(393)	(50)	(11.234)

	Cash flows 2024		
Non-current financial liabilities	Fixed interest rate	Variable interest rate	Principal
Senior secured term loan	€ -	€ (61.981)	€ (8.002)
Senior secured and unsecured notes	(37.108)	-	-
Other bank borrowings	(119)	(25)	(4.955)

	Cash flows 2025		
	Fixed interest rate	Variable interest rate	Principal
Senior secured term loan	€ -	€ (61.473)	€ (6.401)
Senior secured and unsecured notes	(37.007)	-	-
Other bank borrowings	(58)	(5)	(2.583)

	Cash flows 2026 and thereafter		
	Fixed interest rate	Variable interest rate	Principal
Senior secured term loan	€ -	€ (28.090)	€ (1.209.714)
Senior secured and unsecured notes	(28.318)	-	(700.000)
Other bank borrowings	(23)	-	(1.651)

These tables do not consider excess cash flow payment obligations for the senior secured term loans.

(25) Retirement benefit obligations

In addition to statutory pension plans, most employees are granted Company pension benefits from either defined contribution or defined benefit plans. Benefits generally depend on years of service, employee contributions or compensation, and take into consideration the legal framework of labor, tax and social security laws of the countries where the companies are located.

Defined benefit post-employment plans

The most significant defined benefit arrangements exist in the UK, Germany and Switzerland, with smaller plans in France, Thailand, Turkey and India.

Germany - Some pension obligations of the Company are based on existing commitments towards employees that joined the Company before January 1, 2000 and were members of the pension fund for employees of the Hoechst AG. There are also individual commitments, which are based on the performance of the Essener Verband. Scope, types of benefits and benefit requirements are set out in the pension agreements. Furthermore, there are commitments in accordance with the "supplementary benefits of Klöckner Pentaplast GmbH" from August 30, 2000 in conjunction with individual contractual pension commitments and "benefits plan of the Essen Federation for employer-funded pension commitments and deferred compensation (BOLO)". Furthermore, there are direct commitments for deferred compensation based on individual contractual arrangements after the "Pension scheme for supplementary pension for salary (VO 2001)" on the basis of guidelines of Klöckner-Werke AG from August 17, 2001.

Switzerland - All employees of kp Switzerland are member of its pension funds against the risks of old age, death and disability. The pension fund has the legal form of a foundation. In addition to mandatory benefits, the pension scheme provides additional services in non-obligatory aspects. The foundation is registered with the Bernese BVG- and foundation supervision. Authoritative decisions on services are taken by the Board of Trustees, equally composed of four representatives of employees and employers. The Board of Trustees as the supreme body is responsible for the asset management.

Thailand - There is a Retirement plan and a Long Service Award (LSA) Plan as provided by Klöckner Pentaplast (Thailand) Limited for all employees for normal retirement age of 60 years.

UK - LINPAC operates for its qualifying monthly paid UK staff a defined benefit pension scheme (“LINPAC Group Staff Pension Fund”), providing benefits to the members in the form of benefit payments or deferred pensions to the individual member dependent on the individuals’ circumstances. The level of benefits provided depends on members’ length of service and their salary in the final years leading up to retirement. The scheme is closed both to new members and to future accrual for existing members. It is funded with assets held in a separate trustee administered fund.

The Company operates a defined benefit pension scheme (“Allibert Equipment Limited Pension and Life Assurance Scheme”) which was transferred to LINPAC on acquisition of the Allibert Buckhorn Group. This defined benefit scheme was discontinued on February 29, 2012. The scheme is closed to new members.

France - All LINPAC subsidiaries in France provide unfunded retirement indemnities according to the applicable collective agreement. The benefit takes the form of a lump sum payable on reaching retirement age.

Turkey - This is a mandatory termination indemnity plan that pays a total benefit to departing participants in the event of unjustified dismissal, termination due to military service or within one year of marriage (for female participants) or normal retirement. The amount of the lump sum payable is equal to Final Pensionable Pay for each year of service, up to a statutory ceiling of Turkey Lira 8.285 thousands in 2021 (amount revised periodically by the Government).

The amount recognized in the balance sheet for defined benefit liability is determined as follows for kpGroup:

	December 31, 2021	December 31, 2020
Retirement benefit obligation	€ (45.257)	€ (51.518)
Pension plan asset surplus	57.340	31.398
Net defined benefit liability	12.083	(20.120)

kpGroup has an employer contribution reserve as of December 31, 2021 in the amount of € 57.340 (€ 31.398 as December 31, 2020). If a pension fund is overfunded as defined in IAS 19, the surplus funds are available to the Company only to a very limited extent. The economic benefit for kp group lies in future reductions in contributions and is calculated in accordance with IFRIC 14 and recognized as employer contribution reserve. Please refer to note 26 for provisions and to note 22 regarding investments.

The UK plan was transferred from EU to non-EU region starting from January 1,2021.

The amount recognized in the balance sheet for defined benefit liability is composed by regions as follows:

	December 31, 2021	December 31, 2020
EU	€ (46.593)	€ (242.033)
Non-EU	(235.891)	(50.781)
Provisions for pensions and other post employment benefits	(282.484)	(292.814)
EU	2.908	215.832
Non-EU	291.659	56.862
Net defined benefit asset	294.567	272.694
EU	(43.685)	(26.201)
Non-EU	55.768	6.081
Net defined benefit asset (liability)	12.083	(20.120)

The net defined benefit liability developed as follows:

	Defined benefit obligation		Fair value of plan assets		Net defined benefit asset (liability)	
	Year ended December 31, 2021	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020
EU						
Balance at the beginning of the period	(242.033)	(238.133)	215.832	214.281	(26.201)	(23.852)
Transfer of UK plan from EU to non-EU region	€ 189.478	€ -	€ (212.790)	€ -	€ (23.312)	€ -
Reclassification	(74)	(192)	-	31	(74)	(161)
Current service cost	(1.100)	(1.110)	-	-	(1.100)	(1.110)
Past service cost	(283)	(1.277)	-	-	(283)	(1.277)
Net interest	(302)	(3.846)	15	3.824	(287)	(22)
Net actuarial (gain) loss						
of which due to changes in financial assumptions	5.087	(15.805)	97	12.810	5.184	(2.995)
of which due to changes in demographic assumptions	(3)	(485)	-	-	(3)	(485)
of which due to empirical adjustments	723	(907)	-	-	723	(907)
Employer contributions	-	-	2.108	6.246	2.108	6.246
Employee contributions	-	(27)	-	27	-	-
Benefits paid out of plan assets	2.354	9.506	(2.354)	(9.919)	-	(413)
Transfers	(440)	-	-	-	(440)	-
Exchange differences	-	10.243	-	(11.468)	-	(1.225)
Balance at December 31	(46.593)	(242.033)	2.908	215.832	(43.685)	(26.201)

	Defined benefit obligation		Fair value of plan assets		Net defined benefit asset (liability)	
	Year ended December 31, 2021	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020
Non-EU						
Balance at the beginning of the period	(50.781)	(46.951)	56.862	53.947	6.081	6.996
Transfer of UK plan from EU to non-EU region	€ (189.478)	€ -	€ 212.790	€ -	€ 23.312	€ -
Reclassification	(34)	32	-	-	(34)	32
Current service cost	(1.076)	(868)	-	-	(1.076)	(868)
Net interest	(2.832)	(94)	3.059	81	227	(13)
Net actuarial (gain) loss						
of which due to changes in financial assumptions	7.917	(970)	10.704	1.620	18.621	650
of which due to changes in demographic assumptions	2.999	(409)	-	-	2.999	(409)
of which due to empirical adjustments	2.084	(858)	-	-	2.084	(858)
Employer contributions	-	-	944	630	944	630
Employee contributions	(502)	(496)	502	496	-	-
Benefits paid out of plan assets	10.274	(50)	(10.871)	(147)	(597)	(197)
Currency translation adjustments	(14.462)	(117)	17.669	235	3.207	118
Balance at December 31	(235.891)	(50.781)	291.659	56.862	55.768	6.081
Total balance at December 31	(282.484)	(292.814)	294.567	272.694	12.083	(20.120)

The amounts recognized in the statement of income (loss) are as follows:

	EU		Non-EU		Total	
	Year ended December 31, 2021	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020
Current service cost	€ (1.100)	€ (1.522)	€ (1.674)	€ (1.065)	€ (2.774)	€ (2.587)
Past service cost	(283)	(1.277)	-	-	(283)	(1.277)
Net interest income (expense)	(287)	(22)	227	(13)	(60)	(35)
Expenses for defined benefit plans	(1.670)	(2.821)	(1.447)	(1.078)	(3.117)	(3.899)

Plan assets are comprised as follows:

	EU		Non-EU	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Debt instruments	€ 1	€ 147.306	€ 184.743	€ 21.252
Real estate	-	-	20.575	17.634
Equity instruments	-	-	75.279	15.264
Other	2.907	68.526	11.062	2.712
Fair value of plan assets	2.908	215.832	291.659	56.862

Pension costs include expenses for defined benefit pension obligations. The interest portion from the valuation of pension obligations was shown under interest expense due to its financing character. The expected income from the related fund assets was netted with interest expense.

Risks

The risks from defined benefit plans arise partly from the defined benefit obligations and partly from the investment in plan assets. The risks lie in the possibility that higher direct pension payments will have to be made to the beneficiaries and / or that additional contributions will have to be made to plan assets in order to meet current and future pension obligations.

Demographic/biometric risks - Since a large proportion of the defined benefit obligations comprises lifelong pensions or surviving dependents' pensions, longer claim periods or earlier claims may result in higher benefit obligations, higher benefit expense and / or higher pension payments than previously anticipated.

Investment risks - If the actual return on plan assets were below the return anticipated on the basis of the discount rate, the net defined benefit liability would increase, assuming there were no changes in other parameters. This could happen as a result of a drop in share prices, increases in market rates of interest, default of individual debtors or the purchase of low-risk but low-interest bonds, for example.

Interest-rate risks - A decline in capital market interest rates, especially for high-quality corporate bonds, would increase the defined benefit obligation. This effect would be at least partially offset by the ensuing increase in the market values of the debt instruments held.

Measurement parameters and their sensitivities

The following weighted parameters were used to measure the pension obligations as well as the expected return on plan assets as of December 31 and the expense for pensions and other postemployment benefits in the respective year:

	EU		Non-EU	
	Year ended December 31, 2021	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020
Discount rate	1,35%	1,22%	1,68%	0,04%
Future salary increases	2,46%	2,23%	2,16%	1,93%
Future pension increases	1,60%	1,24%	2,80%	0,00%

The parameter sensitivities were computed by expert actuaries based on a detailed evaluation.

Altering individual parameters by 0,5 percentage points while leaving the other parameters unchanged would have impacted pension and other post-employment benefit obligations for EU and non-EU as follows:

	EU		Non-EU		Total	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
Pension obligations						
0,5 %-pt. change in discount rate	€ (3.146)	€ 3.454	€ (17.830)	€ 20.444	€ (20.976)	€ 23.898
0,5 %-pt. change in projected future salary increases	270	(253)	339	(324)	609	(577)
0,5 %-pt. change in projected future benefit increases	1.696	(1.566)	10.017	(9.340)	11.713	(10.906)

Defined contribution post-employment plans

Germany - In general, all employees are entitled to defined contribution schemes, which are funded by contributions to a third party pension fund (Hoechster Pensionskasse) “Penka II”. The employer’s and employee’s contributions are the same.

North America - Defined contribution plans are installed at the North American subsidiaries Klöckner Pentaplast of America, Inc. and Klöckner Pentaplast of Canada. Klöckner Pentaplast of America, Inc. has a partially contributory profit sharing and 401 (k) plan covering substantially all employees. Employee contributions are matched at a 50% rate up to 3% of the participant's compensation. The Board of Directors of the entity also authorizes contributions based on profits, 50% of which are made to the plan and 50% of which can be taken as cash or invested in the plan at the employee's option.

In Canada, benefits are provided through two defined contribution arrangements. These registered retirement savings plans are typical in Canada and similar to US 401 (k) plans.

Multi-employer plan - The Company operates defined contribution plans, which are funded by paying contributions to a third party provider (Hoechster Pensionskasse VVaG) into the pension fund “Penka I”. The Company generally has no further obligations other than to pay the contributions for such plans, kp has 377 current employees and former employees that are insured in a defined benefit plan which is a multi-employer in Germany. The pension fund Penka I qualifies as a multi-employer benefit plan in Germany. The Penka I plan can be classified for accounting purposes as a defined contribution plan because there is insufficient information available about this pension plan to allow kp to classify it as a defined benefit plan under the applicable accounting standards since the plan assets cannot be allocated among the participating companies (IAS 19.34). The plan exposes the participating kp companies to actuarial risks associated with the current and former employees of other companies that are members of the same pension plan. There is no consistent or reliable basis for allocating the obligation, plan assets and cost to individual companies participating in the plan.

In addition to the service cost for the active participants with defined benefit pension promises, kp has to finance increases of the defined benefit payments financed externally through Penka I because the increase in the benefit payments is not fully funded. Please refer to note 32 on Contingencies.

Netherlands - The pension plan is ruled in the “Pensioenreglement d.d. 1 maart 2011 van KP Netherlands B.V.". This pension plan became effective as of January 1, 2008 and was closed and transferred into a defined contribution plan as of December 31,2015.

(26) Provisions for other liabilities and charges

	December 31, 2021	December 31, 2020
Current		
Restructuring	€ 5.803	€ 6.311
Warranties	3.229	3.005
Settlement	1.775	1.475
Impending losses for onerous contracts	151	953
Provision for integration	147	297
Provision advisory service	595	28
Others	2.597	3.948
Provisions for other liabilities and charges	14.297	16.017

The restructuring provision was primarily used for the settlement of individual agreements with defined employees to reduce redundant jobs, and streamline the organization.

Product warranties and product defects represent kpGroup’s responsibility for the proper functioning of the goods sold (product warranty) as well as the obligation that arise from the use of the products sold (product defects).

The provision for litigation and settlement contain anticipated expenses from lawsuits in which the Company is the defendant party.

	December 31, 2021	December 31, 2020
Non-current		
Accrual for jubilees	€ 2.218	€ 2.441
Others	197	146
Provisions for other liabilities and charges	2.415	2.587

After a long period of service with the Company, employees especially of the German entities, who joined the group before September 1, 1996 are entitled to jubilee payments arising from collective agreements.

Overall changes can be summarized as follows:

Movement	January 1, 2021	Reclas.	Currency translation adjustments	Reversals	Used during period	Additions	December 31, 2021
Restructuring	6.311	-	28	(464)	(4.494)	4.421	5.802
Warranties	3.005	-	133	(1.626)	(91)	1.808	3.229
Jubilees	2.441	-	(9)	(36)	(185)	7	2.218
Settlement	1.475	-	-	-	-	300	1.775
Impending losses from onerous contracts	953	-	13	(1.667)	-	853	152
Provision for integration	297	-	-	(149)	-	-	148

Movement	January 1, 2021	Reclas.	Currency translation adjustments	Reversals	Used during period	Additions	December 31, 2021
Provision advisory service	28	-	-	-	(502)	1.068	594
Other	4.094	(2.103)	(4)	(294)	(1.106)	2.207	2.794
Provisions for other liabilities and charges	18.604	(2.103)	161	(4.236)	(6.378)	10.664	16.712

(27) Lease liabilities

As of December 31, 2021, the maturities for lease liabilities are as follows:

	December 31, 2021	December 31, 2020
Due within 1 year	€ 22.875	€ 17.792
Later than 1 year and not later than 5 years	36.647	33.344
Later than 5 years	21.362	9.674
Lease liabilities	80.884	60.810
Current	22.875	17.792
Non-current	58.009	43.018

(28) Other liabilities

	December 31, 2021	December 31, 2020
Current		
Personnel	€ 29.633	€ 52.087
Other taxes	27.104	24.307
Sales commission and rebates	22.808	19.201
Accrued interest	33.663	12.699
Social security	7.525	7.369
Audit costs	2.829	1.889
Other	10.431	15.598
Other current liabilities	133.993	133.150

The personnel liability includes the accrued vacation pay as well as wages and salaries, which arise from timing differences between payment and year-end reporting. In addition, this liability includes bonuses which are accrued on a monthly basis and are paid annually, at the beginning of the fiscal year. Further, the item includes a liability in connection with the profit sharing plan and 401 (k) plans in the USA.

	December 31, 2021	December 31, 2020
Non-current		
Deferred income from public and private grants	€ 1.593	€ 1.599
Other liabilities	2.072	2.409
Other non-current liabilities	3.665	4.008

Other non-current liabilities include public and private grants received for investments in Portugal, China, UK and Brazil in the amount of € 1.593 (€ 1.599 as of December 31, 2020), which were released as a gain to “Other operating expenses” in accordance with the respective grant terms.

(29) Subscribed capital and special reserve account and additional paid in capital

The issued and subscribed share capital of Kleopatra Holdings 2 S.C.A. amounts to € 1.756 and is divided into 1.756.489 ordinary shares with a nominal value of € 1,00 and one management share with a nominal value of € 1,00.

Kleopatra Senior Holdings GP S.à r.l. as the sole manager of Kleopatra Holdings 2 S.C.A. is permitted to issue new shares up to the limit of authorized share capital in the amount of € 1.000.000 (one billion Euro).

The special equity account (account 115 - “apport en capitaux propres non rémunéré par des titres” of the Luxembourg standard Charter of Accounts) of kpGroup amounts to € 39.090 as of December 31, 2021 (€ 39.090 as of December 31,2020).

(30) Share based compensation

On December 18, 2015, Kleopatra Holdings 1 S.C.A. granted and issued 19.056 Class B SCA shares of Kleopatra Holdings 1 S.C.A. (“Class B SCA Shares”) to certain employees of the kpGroup at a subscription price of € 0,10 per share for total proceeds of € 2. The shares were fully vested upon grant. The terms of the awards restrict the sale or disposition of the restricted stock held by the employees.

On February 9, 2016, Kleopatra Holdings 1 S.C.A. granted and issued 40.667 Class C1 SCA shares of Kleopatra Holdings 1 S.C.A. (“Class C1 SCA Shares”) and 50.622 Class C2 SCA Shares of Kleopatra Holdings 1 S.C.A. (“Class C2 SCA Shares”) to certain employees at a subscription price of € 0,10 per share for total proceeds of € 9. On July 29, 2016, Kleopatra Holdings 1 S.C.A. granted and issued 54.220 of its Class C1 SCA Shares and 54.516 of its Class C2 SCA Shares to certain employees at a subscription price of € 0,10 per share for total proceeds of € 11. On September 30, 2016, Kleopatra Holdings 1 S.C.A. granted and issued 968 of its Class C1 SCA shares and 973 of its Class C2 SCA shares to certain employees at a subscription price of € 0,10 per share for total proceeds of € 0,20. The shares vest over five years provided that the employee remains employed by the Company. The terms of the awards restrict the sale or disposition of the restricted stock held by the employees.

On December 29, 2017, Kleopatra Holdings 1 S.C.A. granted and issued 8.580 Class E SCA shares of Kleopatra Holdings 1 S.C.A. (“Class E SCA Shares") to certain employees at a subscription price of € 0,10 per share for total proceeds of € 1. The shares vest over five years provided that the employee remains employed by the Company. The terms of the awards restrict the sale or disposition of the restricted stock held by the employees.

During 2018, Kleopatra Holdings 1 S.C.A. granted and issued 41.393 Class F SCA shares of Kleopatra Holdings 1 S.C.A. (“Class F SCA Shares”) to certain employees at a subscription price of € 0,10 per share for total proceeds of € 41. The shares vest over five years provided that the employee remains employed by the Company. The terms of the awards restrict the sale or disposition of the restricted stock held by the employees.

During 2020, Kleopatra Holdings 1 S.C.A granted and issued 119.500 Class H SCA shares of Kleopatra Holdings 1 S.C.A (“Class H SCA Shares”) to certain employees at a subscription price of € 0,10 per share for total proceeds of € 12. The shares vest over five years provided that the employee remains employed by the Company. The terms of the awards restrict the sale or disposition of the restricted stock held by the employees.

During 2021, Kleopatra Holdings 1 S.C.A granted and issued 9.978 Class D SCA shares of Kleopatra Holdings 1 S.C.A (“Class D SCA Shares”) to certain employees at a subscription price of € 0,10 per share for total proceeds of € 1. The shares vest over five years provided that the employee remains employed by the Company. The terms of the awards restrict the sale or disposition of the restricted stock held by the employees.

Upon termination of employment, the Company has the right to repurchase an employee's shares during the 180 days following the employee's termination. For vested shares, the purchase price is the then-current market value of the shares unless the employee is determined to be a "bad leaver", in which case the purchase price is equal to the lesser of the then-current market value or the original purchase price. For unvested shares, the purchase price is the lesser of the original purchase price of the shares or its then-current market value.

For the Class C1 SCA Shares, Class C2 SCA Shares, Class E SCA Shares, Class F SCA Shares, Class H SCA Shares, and Class D SCA Shares, the Company recognizes compensation expense ratably over the vesting period based on the fair value of the stock at the grant date. Restricted stock compensation expense totaled € 854 (at weighted average rate) for the year ended December 31, 2021 (€ 1.408 for the year ended December 31, 2020), and is reported in general and administrative expenses in the consolidated statements of income (loss), which corresponds to the applicable employee's compensation expense. The fair value of restricted stock awards that vested totaled € 1.080 and € 658 at December 31, 2021 and December 31, 2020, respectively. As of December 31, 2021, unrecognized compensation expense related to non-vested restricted stock totaled € 945 (€ 1.438 as of December 31, 2020), and is expected to be recognized over the weighted average period of 2,1 years.

(31) Deferred income tax

	December 31, 2021	December 31, 2020
Deferred tax liabilities		
Intangible assets	€ 28.004	€ 41.356
Property, plant and equipment	22.118	28.979
Inventories	1.354	1.082
Accounts receivables / payables	11.009	18.963
Offsetting	(32.632)	(44.881)
Deferred tax liabilities	29.853	45.499
Deferred tax assets		
Intangible assets	2.622	7.911
Property, plant and equipment	17.092	12.271
Inventories	1.596	1.560
Accounts receivables / payables	10.574	16.146
Employee benefit obligations	1.509	14.249
Tax losses & attributes carryforward	128.791	80.678
Offsetting	(32.632)	(44.881)
Deferred tax assets	129.552	87.934

Deferred tax is recognized using the liability method on taxable temporary differences between the tax base and the accounting base of items included in the balance sheet of kpGroup.

Certain temporary differences are not provided for as follows:

— goodwill not deductible for tax purposes and

— differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted, or substantively enacted, at the year end.

Deferred income tax assets are recognized on temporary differences, tax loss carry-forwards and interest carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The directors have recognised a deferred tax asset of € 116.223 (€ 33.522 as of December 31, 2020) relating to unused tax losses, and, of € 12.568 (€ 46.533 as of December 31, 2020) relating to carried forward interest that are considered to be able to be offset against the group's taxable profits expected to arise in the near term. Management have based their assessment on both positive and negative evidence including historic profitability and the latest executive approved 10-year forecast which show sustainable profit growth. Improved trading performance and the positive impacts of the finance optimisation and rationalisation projects undertaken in the year also support the level of asset recognised. Assets have been assessed in line with 10-year forecast, based on information available and completed turn-around in the business. The group will continue to monitor forecast in future periods to ensure assessment of assets is in line with expected results.

Following the application of the Germany equity test provisions interest carry forwards that were crystallised in the prior period gave rise to a one-off tax deduction in 2021 (effectively reclassifying the interest carry forward with a realised tax loss). The deferred tax asset recognised in relation to the loss carry forwards in respect of this transaction in Germany standalone is € 37.837, after the application of a valuation allowance totaling € 37.673 in respect of the residual losses not recognised including current year losses. In the prior year a deferred tax asset on interest carried forward of € 37.387 was recognised, including valuation allowance of € 29.550.The deferred tax asset recognised is considered to be able to be offset against the sub-groups taxable profits in line with forecast profits as determined by the board approved 10-year forecast.

Valuation allowances are recognised on losses and interest carry forwards arising in entities where utilisation of the assets is not considered probable in the near term amounting to € 94.520 (€ 84.318 as of December 31, 2020) in relation to losses, and, € 7.870 (€ 33.157 as of December 31, 2020) in relation to interest carry forwards with no expiration.

Deferred taxes are not recognized on taxable temporary differences arising from investments in subsidiaries which amounts to € 24.221 (€ 21.677 as of December 31, 2020).

Deferred tax liabilities for taxable temporary differences in connection with investments in subsidiaries, branches, associates and interests in joint arrangements are not recognized if kpGroup is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

(32) Contingencies

Assuming the pension fund will not be in a position to finance the required increases by § 16 BetrAVG (under German legislation, pension payments have to be reviewed after retirement every three years and adjusted for inflation if the Company is in a healthy financial condition), in the worst case, this results in an additional liability of € 6.800 (€ 8.800 as of December 31, 2020). This also includes payments made by the pension fund. Until 2004, the pension fund financed these increases. Due to the current financial environment the pension fund ceased financing these increases from 2005 onward. The participating entities have to finance these increases by themselves.

On March 11, 2020, the World Health Organization declared the recent novel coronavirus (“COVID-19”) outbreak a pandemic. In response to the outbreak many jurisdictions, including those in which we have locations, have implemented measures to combat the outbreak, such as travel restrictions and shelter in place orders. We expect our operations in certain locations to be affected as the pandemic continues. We keep monitoring the situation carefully as it evolves to understand the potential impact on our people and our business. The extent to which COVID-19 may impact the Company’s operating results or financial condition will still depend on future developments, which cannot be predicted, including new information which may emerge concerning the severity of the virus and the actions to contain or treat its impact, among others. The impact of the pandemic and the corresponding actions has been taken in consideration in the preparation of the consolidated financial statements. However, if the duration of the COVID-19 pandemic is longer and the operational impact is greater than estimated, the judgments, assumptions and estimates will be updated and could result in different results in the future. We are taking all necessary steps to protect our people and mitigate the risk to our business.

The Company is a party to a number of lawsuits arising in the ordinary conduct of its business. Although the timing and outcome of the lawsuits cannot be predicted with certainty, the Company does not believe that disposition of these lawsuits will have a material adverse effect on the Group’s consolidated financial positions, results of operations or cash flow.

(33) Litigation and claims

From time to time, the Company may become involved in legal proceedings. Litigation is subject to inherent uncertainties which require the Company to make a best estimate of any likely adverse result from such matters. The Company is currently not aware of any legal proceedings or claims that could reasonably be expected to have a material adverse effect on the Company’s business, financial condition or results of operations.

(34) Related party transactions

Shareholders of kpGroup which have a significant influence as defined in IAS 24 during the accounting period have been identified as related parties. It is presumed that an investor has significant influence, if the investor holds 20 per cent or more of the voting power of the investee.

Funds and affiliates of funds held by SVP and its affiliates indirectly hold shares in Kleopatra Holdings 1 S.C.A., Kleopatra Intermediate Holdings S.à r.l., and Kleopatra Senior Holdings GP S.à r.l., which represent 93,11 % of the voting rights as of December 31,2021 of these financial statements.

As of December 31, 2021, the kpGroup owns 1% of shares in the share capital of Kleopatra Holdings 1 S.C.S. with a book value of € 14.

The total equity and net income (loss) of Kleopatra Holdings 1 S.C.A. is presented in the table below.

	December 31, 2021	December 31, 2020
Interest held in Kleopatra Holdings 1 S.C.A.	1%	1%
Book value	(14)	(14)
Kleopatra Holdings 1 S.C.A.		
Total equity	(656.804)	(168.915)
Net income (loss)	488.149	(43.036)

Services are usually negotiated with related parties on a cost-plus basis. Goods are bought on the basis of price lists in force with non-related parties.

The following transactions were carried out with related parties (including affiliated companies which are not part of the basis of consolidation) and joint ventures:

Sale of goods to joint ventures:

	Year ended December 31, 2021	Year ended December 31, 2020
Vinyl Solutions, LLC, Atlanta, Georgia/USA		
Net sales	€ 158	€ 608

Interest income from joint ventures:

	Year ended December 31, 2021	Year ended December 31, 2020
Vinyl Solutions, LLC, Atlanta, Georgia/USA		
Interest income	€ 2	€ 1

Other related parties of kpGroup are Netpak Maroc. Netpak Maroc, Casablanca, Morocco is a company, in which a minority shareholder Infia S.r.l. has a significant interest.

Other related party transactions:

	Net sales		Accounts receivable	
	Year ended December 31, 2021	Year ended December 31, 2020	December 31, 2021	December 31, 2020
Netpak Maroc	€ 8.119	€ 7.073	€ 3.206	€ 2.879

Interest income (expense) from entities with significant influence on kpGroup:

	Year ended December 31, 2021
Kleopatra Holdings 1 S.C.A., Luxembourg/Luxembourg	
Interest income	521

Kleopatra Holdings 1 S.C.A. and Kleopatra Holdings 2 S.C.A. are parties to a cost allocation agreement, dated as of June 30, 2013, and as amended from time to time. In this context, for the year ended December 31, 2021, Kleopatra Holdings 1 S.C.A. charged € 528 (€ 658 for year ended December 31, 2020) for management fees.

Receivables (payables) from (due to) entities with significant influence on kpGroup:

	December 31, 2021	December 31, 2020
Kleopatra Holdings 1 S.C.A., Luxembourg/Luxembourg		
Accounts receivable	€ 50	€ 197
Other current assets	1.310	789
Other non-current assets	9.937	9.934

Receivables (payables) from (due to) joint ventures:

	December 31, 2021	December 31, 2020
Vinyl Solutions, LLC, Atlanta, Georgia/USA		
Accounts receivable	€ 187	€ 229
Accounts payable	(226)	(229)

The balances between kpGroup and its associated companies are mainly originated by the ongoing trade relations. The balances between kpGroup and its general partner and shareholder are mainly originated by financing relationships and received services.

Management compensation

Key management personnel based on IAS 24 are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly. The key personnel for kpGroup are Chief Executive Officer and Chief Financial Officer. Further the presidents of the two segments Pharma, Health & Protection, and Durables, and Food Packaging are considered as key management personnel as well. While they do not receive compensation from the Company, members of the board of the Group are considered key management personnel as well.

	Year ended December 31, 2021	Year ended December 31, 2020
Officers		
Salaries	€ 6.316	€ 4.669
Termination benefits	490	-
Share based compensation expense	619	1.106
Key management compensation	7.425	5.775

These key manager salaries include, besides the base salary, a bonus based on performance indicators, further short-term benefits like relocation, a company car, medical insurance and payments to life insurance contracts.

(35) Auditors' fees

The following table shows the expenses for Deloitte Audit Société à Responsabilité Limitée, Luxembourg and the companies of the worldwide Deloitte network, as auditor for kpGroup.

	Year ended December 31, 2021		Year ended December 31, 2020	
	Deloitte	Others*	Deloitte	Others*
Audit fees	€ 2.305	€ 266	€ 2.642	€ 204
Other assurance services	347	85	21	28
Other non-audit services	209	9	-	37
Auditors' fees	2.861	360	2.663	269

* Local audit firms for statutory purposes

(36) Other disclosures

The following companies included in the consolidated financial statements of Kleopatra Holdings 2 S.C.A. exercised exemption options in fiscal year 2021:

- Klöckner Pentaplast Europe GmbH & Co. KG, Heiligenroth/Germany (Section 264b German Commercial Code [HGB])
- Pentaplast S.A., Santo Tirso/Portugal (Art. 7 Decree-Law 158/2009 No. 3)
- LINPAC Packaging GmbH, Ritterhude/Germany (Section 264 (3) HGB)
- LINPAC Packaging Rigid GmbH, Beeskow/Germany (Section 264 (3) HGB)
- LINPAC Holdings (Northern Europe) GmbH, Bremen/Germany (Section 264 (3) HGB)
- LINPAC Holding Deutschland GmbH, Bremen/Germany (Section 264 (3) HGB)

(37) Events after balance sheet date

The Group notes with concern the escalation of the Russian-Ukraine conflict, which began on February 24, 2022. This creates uncertainty for the outlook of the world economy. Although the Group does not have facilities in Ukraine, the Group has started to identify the operational and financial consequences. The impact of these events, including future management actions that might be taken to our operations in impacted countries, on our consolidated financial statements is not known at this time.

(38) Management

Kleopatra Holdings 2 S.C.A. is managed by Kleopatra Senior Holdings GP S.à r.l. in its capacity as sole unlimited shareholder and holder of the management share of kpGroup.

Luxembourg, March 31, 2022

Kleopatra Senior Holdings GP S.à r.l., Luxembourg

represented by

Julien Goffin

Kleopatra Senior Holdings GP S.à r.l.

Permanent Representative