GROUP
ANNUAL REPORT

KPS

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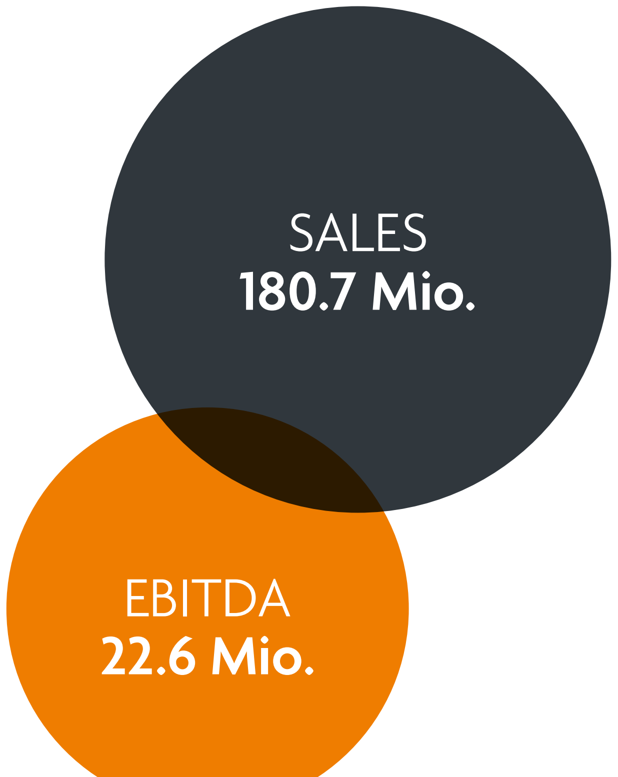
OVERVIEW OF THE **CONSOLIDATED RESULTS**

1 October 2018 to 30 September 2019

OVERVIEW OF THE CONSOLIDATED RESULTS

in million euros	**2018/2019**	**2017/2018**
Group sales	180.7	172.2
EBITDA	22.6	20.0
EBIT	18.8	16.6
Group earnings	12.2	9.8
Earnings per share (in euros)	0,.33	0.26
Cash and cash equivalents	9.9	9.1
Financial liabilities	17.4	21.2



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THE CEO OF KPS
TO THE SHAREHOLDERS

Ladies and Gentlemen, Dear Shareholders,

We are privileged to look back on a robust and satisfactory business year 2018/2019. We succeeded in increasing sales at KPS by 4.9 % to 181 million euros and EBITDA by 12.6 % to 23 million euros. Our international activities developed in a particularly gratifying way. KPS was able to increase sales generated outside Germany by 79.5 % to 77 million euros. This therefore contributed 42.6 % to Group sales.

At the end of this financial year, we are publishing our sustainability report for the first time and expressing our understanding of sustainable business management. We are aware of the trust placed in us regarding the responsibility that we have as a specialist for digital transformation projects. Digital transformation, digital strategies as well as their conception and implementation, is a key pillar for safeguarding the future of many companies. Our sustainability strategy aims to take the interests of our stakeholders into account and strives for a balance between financial goals and the requirements of the stakeholders.

Digitalization and the corresponding transformation of business processes continue to be strong growth drivers for the national and international activities of KPS. Companies are increasingly engaging with this major challenge and they are ramping up their reliance on KPS because we pursue a holistic end-to-end consulting approach and offer advice, implementation, operation and support from a single source.

Over the past year, our consultants have therefore once again been able to successfully deploy their know-how in the implementation of these digital transformation initiatives in a wide variety of ways, demonstrating their expertise not only in retail but in other areas as well. For example, we rolled out an SAP cloud solution for automation of B2B marketing processes with a manufacturer of specialist motors in the power engineering sector. We integrated a newly acquired major French company into the existing end-to-end process landscape for a leading global manufacturer of robotic welding systems. We introduced SAP for efficient management of business trips in a management consulting firm operating on the global stage, with the aim of digitalizing and automating the associated travel-cost processes. We put in place a multi-country B2B online platform for the biggest electronics dealer in Scandinavia with the corresponding link to the company systems. We supported a group listed on the stock exchange operating in automobile hire, car sharing and leasing by supporting the development of a high-tech mobility app for tens of thousands of corporate customers. In our core sector, we supported two of the leading companies operating in the fashion sector for the digital transformation and introduction of the next generation of SAP solutions.

Leonardo Musso
Founder and CEO of KPS AG

KPS also consistently drove forward the strategy of internationalization, innovation and process industrialization in the business year 2018/2019. In particular, we were able to focus on accelerating our international growth with the acquisitions initiated and integrated over recent years. KPS now has a strategic pool of consultants in our important markets of Germany, Spain, the United Kingdom, Denmark and Norway. Infront Consulting has continued to consolidate its position as the spearhead for strategy and innovation consultancy within the KPS Group and facilitates access to new customer segments.

After we laid the foundation stone for our new office complex at the Lake PHOENIX design center in Dortmund last year, we were able to move into these premises in September and officially opened the facility after the 2018/2019 business year finished in October 2019. The center has more than 8,000 m^2 of floor space, along with workstations for 450 employees designed on the basis of the New Work Concept. The complex provides the central pillar for our innovation and process industrialization and creates a setting for intensive cooperation with our customer project teams in ultra-modern facilities. At the new KPS Customer Experience Center, potential new customers are able to experience processes and technologies tailored to their needs in a completely new way within a real-environment setting and in real time.

Once again, an array of awards over the past business year confirmed the innovative strength and quality of KPS as a consulting partner. KPS and its subsidiary company Infront Consulting were saluted as Germany's Best Consultants by business magazine brand eins and the statistics portal statista for the fifth time in succession. KPS won the IT Innovation Award conferred by the SME Initiative, and received the Seal of Approval of the TOP 100 Companies in Germany for outstanding innovative strength by compamedia. In the prestigious Lünendonk ranking, KPS took 8th place in the list of leading management consultants in Germany.

We believe that we are in a good position to master the upcoming challenges. We are therefore continuing to predict an environment of stable growth, and alongside a strategic increase in sales, we intend to concentrate on industrialization of our consulting services, and the resulting efficiency enhancements and optimization of profits.

We expect sales of between 181 – 191 million euros for the business year 2019/2020. Our forecast also assumes an increase in EBITDA to 28 – 36 million euros.

We would like to thank you for your confidence in us and we will be delighted if you continue to accompany KPS on its journey into the future.

Munich, January 2020
Your Executive Board,

Leonardo Musso

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THE SUPERVISORY BOARD OF KPS
TO THE SHAREHOLDERS

Michael Tsifidaris
Founder and Chairman of KPS AG

Dear Shareholders,

The Supervisory Board provides information on its activity during the business year 2018/2019 in the following report. The report focuses in particular on the continuous dialog with the Executive Board, the main issues for consultation at the meetings of the Supervisory Board, and the audit of the annual and consolidated financial statements.

Over the past year, the Supervisory Board carried out with great commitment all the functions allocated to it under legal regulations and the company statutes. During the past business year, it engaged intensively with the situation and perspectives of the company, and with a variety of specific issues in the course of discussions at ordinary meetings of the Supervisory Board and numerous informal meetings with the Executive Board, as well as other members of the management, and employees. The management of the Executive Board was conscientiously and regularly monitored. Furthermore, advice was provided to the Executive Board in the context of the strategic ongoing development of the company and on decisions relating to important individual measures. The basis for monitoring and advice was provided by the monthly reports submitted by the Executive Board, and regular discussions in person and on the phone.

Fundamental and regular focus issues addressed by the Supervisory Board included a continuous review of the market and business development of the company and the various advisory segments, the rolling planning for company, finance and investment, the risk position, the risk controlling system of the company, and matters relating to the Executive Board. A central focus was provided by sales activities, company acquisitions and developing new areas of business.

During the course of the business year 2018/2019, the Executive Board regularly kept the Supervisory Board informed with prompt and comprehensive reports on issues relevant to the company relating to planning, business development, the risk position, strategic measures, as well as about important business transactions and projects. Written reports on the individual business segments were prepared in good time prior to the individual meetings of the Supervisory Board and they were then reviewed by the Supervisory Board. Any deviations in the business performance from the defined plans and targets were explained to the Supervisory Board with appropriate substantiation, and these issues were discussed by the Supervisory Board. The Supervisory Board always had adequate opportunity to engage critically with the reports and resolution proposals of the Executive Board and to obtain appropriate assurance of the lawfulness, expediency, and fit and properness of the management of the business.

Important measures by the Executive Board were only implemented after agreement with the Supervisory Board and following subsequent approval with and by the Supervisory Board. Furthermore, the Executive Board was in regular contact with the Chairman of the Supervisory Board outside these meetings to discuss current developments of the business situation and significant business transactions, and was always immediately informed of such matters.

Alongside various informal meetings, the Supervisory Board convened for a total of six official meetings in the business year 2018/2019. The Supervisory Board meeting held on 13 February 2019 took place in the form of a teleconference. This was also the case for the Supervisory Board meeting held on 29 May 2019. The Members of the Supervisory Board were present in person at all of the other meetings.

During each of the meetings, developments during the previous periods and the current business situation were explained, and individual segments with negative deviations from planning were discussed in detail.

The meeting held on 3 December 2018 focused specifically on agreeing the results of the impairment tests carried out on the acquired subsidiary companies with the auditor.

On 24 January 2019, the Supervisory Board meeting for reviewing the annual financial statements for 2017/2018 took place. The documents submitted by the auditors relating to the annual financial statements were analyzed. The Supervisory Board was able to review the plausibility of the figures submitted on the basis of the members' individual expertise and their knowledge of the company. The documents presented to them enabled the board members to assess the situation of the company and to review any weaknesses. A decision was taken to approve the audited annual financial statements and the management report and therefore the adoption of the annual financial statements, and to approve the consolidated financial statements along with the Group Management Report.

In view of the business situation of the company, the outstanding quality of the bookkeeping, and the very thorough audit carried out by the auditor, the Supervisory Board refrained from carrying out any further audits, particularly since there were no indications that this was necessary. Furthermore, the report by the Supervisory Board for the business year 2017/2018 was adopted.

At the meeting of the Supervisory Board held in the form of a teleconference on 13 February 2019, decisions were taken on the agenda and the draft resolutions for the Annual General Meeting on 29 March 2019.

At the meeting on 29 March 2019, the Supervisory Board met for its constitutive meeting after the vote at the Annual General Meeting. Mr. Michael Tsifidaris was elected as the Chairman of the Supervisory Board. Mr. Hans-Werner Hartmann was elected as the Deputy Chairman. Finally, the Executive Board provided information about business development during the first five months and presented the outlook for the result during the first half of the year.

At the Supervisory Board Meeting on 29 May 2019, the Executive Board provided information about overarching operational topics: DPR audit, audit of social security insurance, and innovations in the area of corporate governance. Furthermore, the ongoing approach was agreed in relation to a number of high levels of overdue debts.

The last meeting of the Supervisory Board in the business year 2018/2019 was held on 30 September 2019. The Executive Board provided information about the expected sales and the anticipated EBITDA, alongside the projected EBIT for the current business year. Furthermore, the Supervisory Board passed a separate draft resolution to establish a subsidiary company in Oslo/Norway.

Efficiency Audit:
The Supervisory Board regularly reviews the efficiency of its activity. The focuses of the efficiency audit are in particular the procedural processes in the Supervisory Board and the information flow between the Supervisory Board and the Executive Board, and the prompt delivery of information with appropriate content to the Supervisory Board. In view of the size of the company and the smooth information flows between the Supervisory Board and the Executive Board, the efficiency audit was carried out without any external advisers. The review arrived at a positive result, as was also the case in the previous year.

Corporate Governance:
The requirements of the German Corporate Governance Code constituted another important matter. The Executive Board and the Supervisory Board decided to adopt the recommendations of the German Corporate Governance Code with a few exceptions, which are related to the size of the company. The Executive Board and the Supervisory Board regard the Code as an important step toward transparency, corporate governance, and control. On 16 January 2020, the Supervisory Board devoted time to the regular discussion of the topic of corporate governance and passed a resolution on the new joint Declaration of Compliance of the Supervisory Board and the Executive Board pursuant to Article 161 Stock Corporation Law (AktG). This will be published permanently on the Internet pages of the company together with the old Declaration of Compliance. One of the exceptions to the Corporate Governance Code includes the fact that the Supervisory Board does not form separate committees because of its size. The internal compliance issues within the Group were also the subject of the regular discussion and review at the meeting referred to.

Composition of the Supervisory Board:
During the entire business year 2018/2019, the following persons were Members of the Supervisory Board:

Mr. Michael Tsifidaris, Chairman
Mr. Hans-Werner Hartmann, Deputy Chairman
Mr. Uwe Grünewald

Mr. Hans-Werner Hartmann is an independent member of the Supervisory Board who has expertise in relation to the areas of accounting and auditing of financial statements pursuant to Article 100 Section 5 Stock Corporation Law (AktG). All the Members of the Supervisory Board are familiar with the sector in which the company is operating.

In the view of the Supervisory Board, an independent member of the shareholders on the Supervisory Board is appropriate pursuant to Section 5.4.1 of the German Corporate Governance Code, the independent representative of the shareholders on the Supervisory Board is Mr. Hans-Werner Hartmann.

Review of possible conflicts of interest:
The Members of the Executive Board and the Supervisory Board disclose any conflicts of interest to the Supervisory Board. However, such conflicts of interest did not occur in the year under review.

Annual and consolidated financial statements for 2018/2019:
The auditing firm Baker Tilly GmbH & Co. KG Wirtschaftsprufungsgesellschaft, Munich, appointed as auditor of the annual financial statements and consolidated

GROUP
ANNUAL REPORT
2018/2019

REPORT OF THE **SUPERVISORY BOARD**

financial statements by the Annual General Meeting held on 29 March 2019, audited the bookkeeping, the annual financial statements of KPS AG, and the consolidated financial statements including the management reports for the business year 2018/2019 and granted each of the documents in each case an unqualified audit opinion. There are no doubts about the independence of the auditor of the financial statements, who submitted the required declaration of independence. The requirements of the German Corporate Governance Code regulating the terms of engagement between the company and the auditing firm have been complied with. The auditor has submitted a comprehensive report on the result of the audit, which was carried out on the complete annual financial statements of the Group and all its subsidiary companies. The annual financial statements of the Group and all the subsidiary companies were provided, as were the report on the audit of the consolidated financial statements and the audit of the individual financial statements of the joint-stock company (Aktiengesellschaft, KPS AG). The auditor was also available to answer any additional questions.

The documents and audit reports drawn up by the auditor were submitted promptly to the members of the Supervisory Board for review. The auditor was present at the balance sheet meeting of the Supervisory Board on 16 January 2020 and reported on the key results of the audit and the auditing focuses. The Supervisory Board took note of the reports provided by the auditor and concurred with the result. The outcome of our own audit (carried out on a random test basis) is in accordance with the result of the audit of the financial statements. The Supervisory Board had no reason to raise any objections in relation to the management and the financial statements submitted.

We concur with the results of the audit of the financial statements. We have no objections on the basis of the final result of our thorough audit and discussion with the auditor of the financial statements. The Supervisory Board approved the annual financial statements of KPS AG drawn up by the Executive Board and the consolidated financial statements including the management report on 23 January 2020. The annual financial statements of KPS AG are therefore adopted. The Report by the Supervisory Board for the business year 2018/2019 was also approved in the course of these deliberations. The proposal for the appropriation of the profit submitted and explained by the Executive Board was agreed by the Supervisory Board after it had carried out its own audit and taking into account the earnings performance and financial situation of the company. The Supervisory Board considers the proposed dividend to be appropriate.

The Supervisory Board would like to thank the Executive Board and all the employees of the Group for their successful commitment over the past business year.

Your Supervisory Board

Michael Tsifidaris
Chairman of the Supervisory Board

KPS – WE ARE SHAPING THE DIGITAL TRANSFORMATION

The digital transformation demands a fundamental operational and cultural change in mindset for the entire organization. The definition and implementation of a company-wide digital transformation strategy is a complex challenge which every company currently needs to address. A top priority in this process is developing innovative concepts and models within the shortest possible time span, in order to derive benefit from them in the marketplace as early as possible. This has been the business of KPS since the company was founded in 2000. KPS aims to hugely accelerate transformation programs at all levels and to provide faster and better implementation of projects – ranging from digital strategy, through turnkey, sector-specific process chains, to technology implementation.

KPS management team

KPS – CLOSE TO THE CUSTOMER, THE CUSTOMER IN FOCUS

KPS is the leading consulting firm for retail and the right partner for any company that wants to bring about realignment of its business in the course of digitalization and strategically place its customers at the center of its endeavors.

Traditional retailers and wholesalers talk in terms of customer centricity in the omnichannel model – in other words, offering customers a consistent shopping experience in all channels and at all touchpoints. In future, manufacturers of consumer goods, energy utilities, government agencies, as well as industrial businesses and engineering companies will have to align their company processes and technologies entirely on their end customers if they are to continue operating successfully in the marketplace.

KPS consultants give support for this transformation. They develop the appropriate digital transformation strategy and work together with their customers to implement this. They deliver sector-specific end-to-end process chains and implement these with the assistance of the most advanced, future-oriented technologies. They also support their clients in change management and preparing the entire company for new processes and applications.

KPS consultants contribute the requisite know-how and the necessary expertise over the entire value chain: in the backend for classic merchandise and branch management, for finances, and in the frontend for e-commerce, marketing, sales and service, and for integrated customer data management. KPS achieves what few others can do: company-wide integration and implementation of strategy, processes, and technology.

The technology partner of choice is SAP, although KPS also uses technology from other providers such as Adobe and Intershop.

KPS – AWARDS, RANKINGS AND PRIZES

In the business year 2018/2019, KPS received a string of awards and prizes and the company was once again represented in the top tier of several sector-relevant ratings.

In April 2019, KPS together with its subsidiary company Infront was awarded the title of Germany's Best Consultants by German business magazine brand eins and the statistics portal statista for the sixth year in succession.

In the United Kingdom, KPS was awarded the title of E-Commerce Agency of the Year 2019 in the UK E-Commerce Awards.

In 2019, market research company Lünendonk once again listed KPS among the 10 biggest management consultancies in Germany, with KPS being ranked in 8th place.

In July 2019, the company was also awarded the TOP 100 Seal of Approval for special innovative strength and above-average innovative successes by compamedia.

In 2018/2019, KPS subsidiary Infront received an award as the Hidden Champion of Digitalization from the Academic Society for Management and Consulting (WGMB).

TOP
100

LÜNENDONK
TOP 10 German
Management Consultancies
2019

Hidden
Champion

Innovation
Award 2019

KPS Prime Standard

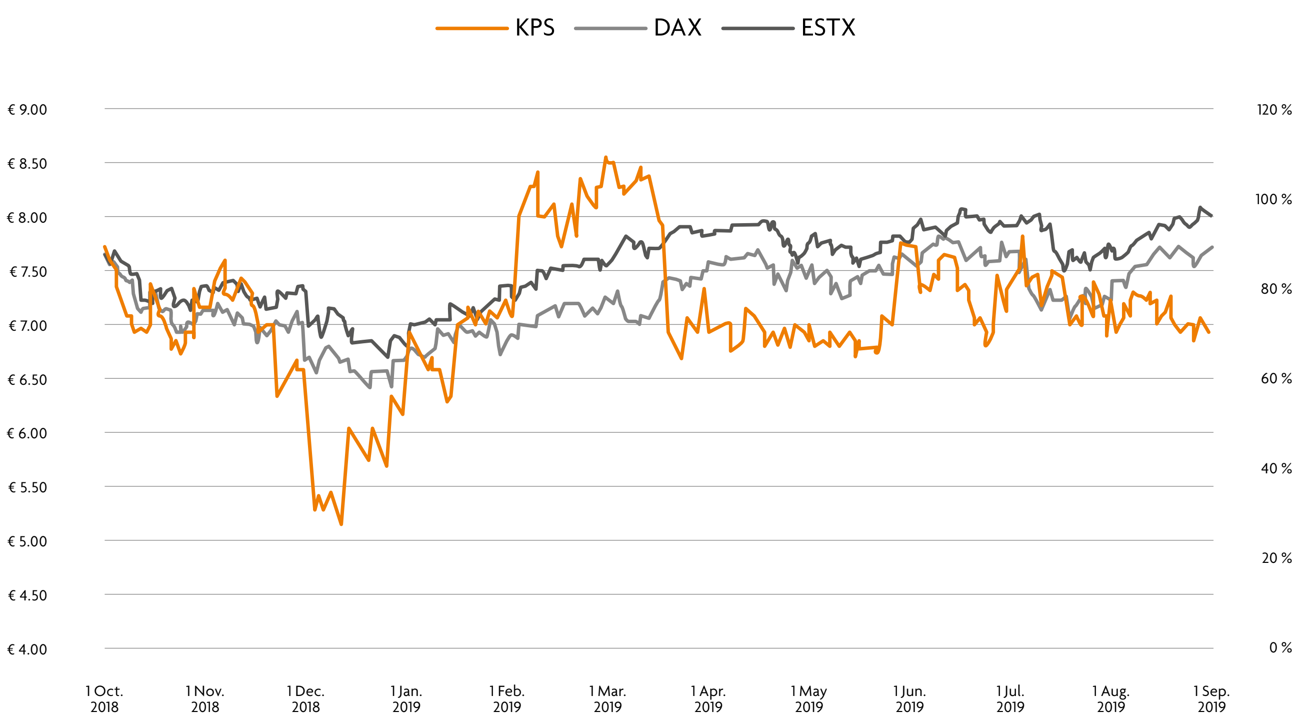
FY 2018/2019

KPS IN THE CAPITAL MARKET

Price performance in the business year 2018/2019 (1 October 2018 to 30 September 2019)

The share of KPS AG posted a fall of 9.3 % overall in the business year 2018/2019. The share price underwent a slide by 32.9 % during the first quarter in particular. In the period from October 2018 to September 2019, the DAX posted a minimal gain of 0.7 %. On 1 October 2018, the KPS Group shares started with a price of 7.51 euros in trading and went up to the high for the year at 8.75 euros on 18 March 2019. The share went down to its low for the reporting period at 5.11 euros on 17 December 2018. The shares ended the year under review at a closing price of 6.90 euros on 30 September 2019.

The average daily trading volume of the KPS share on all German stock exchanges decreased to around 11,570 no-par shares (previous year: 35,076 shares) during the period under review. On 30 September 2019, the market capitalization of KPS AG was 258.1 million euros on the basis of 37,412,100 shares in circulation.



Key data for the share

Sector	Software (IT service provider)
ISIN	DE000A1A6V48
Securities Identification Number (WKN)	A1A6V4
Ticker symbol	KSC
First listing	14 July 1999
Number and type of shares	37,412,100 registered no-par value ordinary shares (no-par shares)
Capital stock	37,412,100.00 euros
Stock exchanges	Frankfurt, Stuttgart, Hamburg, Berlin-Bremen, Düsseldorf and Munich, and XETRA
Market segment	Regulated market
Transparency level	Prime Standard
Designated Sponsor	ODDO Seydler Bank AG

Overview of the share (XETRA, Intraday)

Opening price (1 October 2018)	7.51 euros
High (18 March 2019)	8.75 euros
Low (17 December 2018)	5.11 euros
Closing price (30 September 2019)	6.90 euros
Trading volume (1 October 2018 to 30 September 2019, average trading volume)	11,570
Market capitalization (30 September 2019)	258.1 million euros

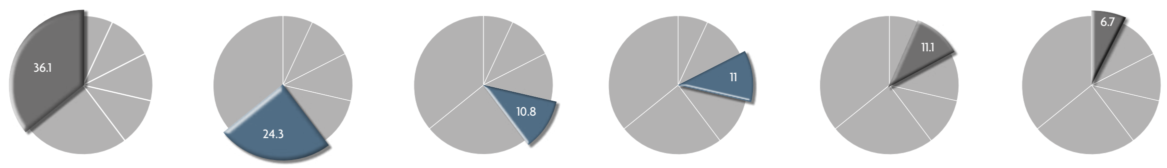
Shareholder structure

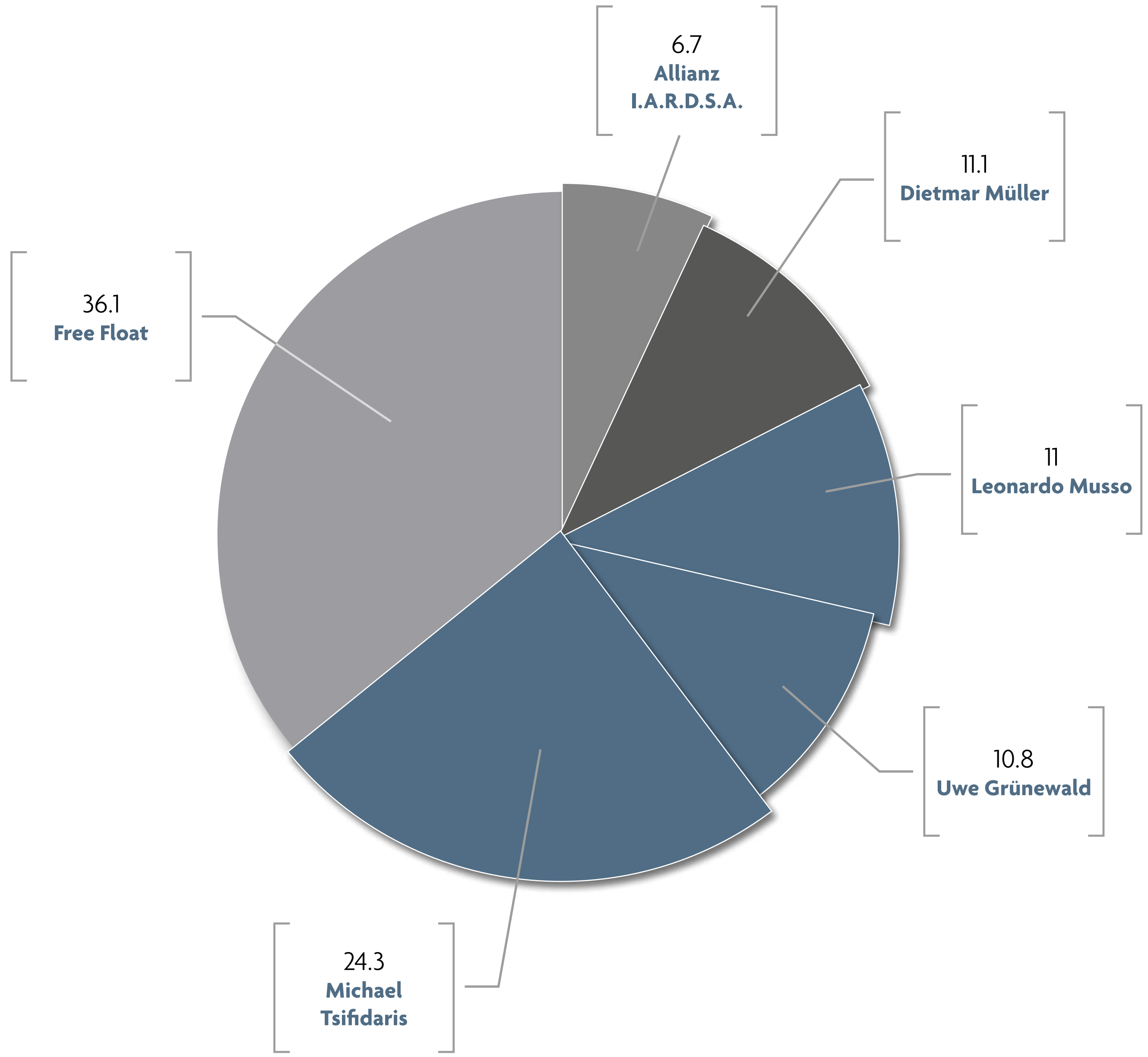
Disclosures are based on the voting rights notifications received pursuant to the Securities Trading Law, WpHG (status: 28 January 2018) and company information; free float is in accordance with the definition of the German Stock Exchange (Deutsche Börse) with shares in the equity capital of less than 5 %.

On 24 January 2020, the shareholder structure of KPS AG was as follows: The Chairman of the Supervisory Board, Michael Tsifidaris, holds 24.3 % of the shares in the company. Member of the Supervisory Board, Uwe Grunewald, holds 10.8 % of the voting capital stock. Chief Executive Officer of KPS AG, Leonardo Musso, holds 11.0 % of the shares in the company. This means that 46.1 % of the voting shares are held by the current management of KPS AG. These shareholders will continue to remain closely associated with KPS AG in future as anchor shareholders and members of the governance bodies.

The former Member of the Executive Board, Dietmar Muller, currently still holds 11.1 % of the voting shares. Allianz I.A.R.D. S.A is another investor with a shareholding above 5 %. The free float amounts to 36.1 %. KPS AG is always in close contact with existing and potential investors and is committed to strategically expanding its circle of shareholders.

Voting rights in %





Annual General Meeting 2019

On 29 March 2019, the Executive Board of KPS AG reported to the shareholders at the ordinary General Meeting on the performance of the business year 2017/2018 and responded to their questions. The shareholders approved the actions of the Executive Board and the Supervisory Board for the business year 2017/2018, and voted with large majorities to approve the proposals put forward by the company management on all agenda items. The voting results of the ordinary Annual General Meeting can be viewed at www.kps.com under Investor Relations/Annual General Meeting.

The company paid out the comprehensive income of 10.1 million euros in full as a dividend to share¬holders as reported in the an¬nual financial statements for 2017/2018. The dividend per no-par share amounted to 0.35 euros. This resulted in a total dividend payout of 13,094,235.00 euros.

A dividend of 13.1 (previous year: 13.1) million euros corresponds to a payout rate of over 100 % of the net profit. A dividend return of 4.7 % was calculated for the last business year based on the opening price of 7.51 euros on 1 October 2018 taking account of the paid dividend of 0.35 euros per share. The total return (share price and dividend return) on the KPS share amounted to -3.77 % during the year under review.

The Executive Management and the Supervisory Board will propose a dividend of 0.35 euros (previous year: 0.35 euros) per share to the shareholders for the past business year 2018/2019.

Financial calendar 2020

24 January 2020	Publication of the figures in the annual financial statements 2018/2019
14 February 2020	Publication of the figures for the 1st quarter 2019/2020
20 March 2020	Ordinary Annual General Meeting in Munich
29 May 2020	Publication of the figures for the half-year 2019/2020
24 July 2020	Publication of the figures for the third quarter 2019/2020

Analysts' research

The performance of the KPS share is continuously analyzed and evaluated by the leading banks Oddo BHF, M.M. Warburg, Berenberg, Hauck & Aufhäuser, Landesbank Baden-Württemberg (LBBW), and Quirin Privatbank, and investment company GBC Research.

Investor Relations

As a company listed in the Prime Standard of the Frankfurt Stock Exchange, KPS AG complied with the highest standards for publicity and transparency of the Regulated Market under statutory regulations and stock-exchange rules during the business year 2018/2019. The company published disclosures immediately to institutional investors, financial analysts and private shareholders about current business development and important events for the share price development of the company.

Alongside publication of financial reports and press releases in German and English, the capital market communication of KPS also included teleconferences for analysts in order to publicize quarterly, half-yearly and annual figures. Furthermore, the management of KPS was also in regular contact with market participants and is committed to go beyond its statutory obligations by carrying out further investor relations activities. During the business year under review, the Executive Board took part in the Warburg Meet-the-Future Conference (Berlin, 29-30 November 2018), the 13th ODDO BHF German Conference (Frankfurt, 19 February 2019), the Solventis Equity Forum (Frankfurt, 11 April 2019), the HAIB Stockpicker Summit (Madrid, 16 May 2019) and the Berenberg and Goldman Sachs Eighth German Corporate Conference (Munich, 23-25 September 2019), with the aim of meeting German and international investors. Furthermore, KPS offers interested investors and analysts telephone appointments to talk to the Chief Executive Officer and any questions can be addressed to Investor Relations by email.

Oddo Seydler Bank AG acts as the designated sponsor for the preparation of binding bid and offer prices for appropriate liquidity, and ensures the corresponding tradability of the KPS share.

Any investors interested in additional information can go to the Investor Relations section on the home page under https://www.kps.com/en/investor-relations.html.

Dividend
EUR 0.35

2018/2019

Our vision in the year 2000:

A consulting firm that can define strategic goals, optimize processes, realign them and implement them based on a standard software stack – all within the shortest possible timeframe.

2000

- **Foundation of KPS Consulting GmbH**
- **Sales of 1,2 million euros**

2004

- Expansion into Austria and Switzerland
- Increase in the team to 60 Consultants
- Founding of the SAP Expertise Partnership for SAP Retail & Fashion

2007

- KPS Consulting GmbH now operating under KPS AG
- Listing of share at Frankfurt Stock Exchange (FSE)
- Relocation of the company headquarters to Munich
- Team of 130 consultants
- **Sales of 21 million euros**

2009

- Rank 9 among leading German medium-sized management consultancies, Lünendonk list 2009
- First projects in the Nordic region
- Ranked 23rd among the TOP 25 management consultancies in Germany

2014

- KPS awarded Best Consultants Award Germany (brand eins and Statista)
- KPS appointed SAP hybris Platinum and Gold Channel partner
- getit GmbH, one of Germany's leading e-commerce and Internet agencies, becomes a subsidiary of KPS AG
- Rank 6 among Germany's management consultancies on the Lünendonk List 2014
- Team of 500 consultants
- **Sales of 111 million euros**

2015

- Expansion of business activities in Northern Europe
- Opening of the KPS office in Vienna
- Expansion to UK, France and Spain
- Team increased to 650 consultants
- **Sales of 122 million euros**

2016

- KPS honored as Top Supplier Retail 2016
- Opening of KPS offices in Amsterdam and Arlington, VA, USA
- Acquisition of the Danish SAP consultancy Saphira Consulting based in Copenhagen, Denmark
- 750 consultants
- **Sales of 145 million euros**

2017

- KPS awarded Best Consultant for the fourth time (brand eins and Statista)
- Acquisition of the Spanish SAP partner ICE Consultants Europe SL in Barcelona
- Acquisition of Infront Consulting, a strategy consultancy based in Hamburg, Germany
- 1000 consultants working globally
- KPS in the Financial Times 1000 "fastest growing companies" of Europe

2018

- Acquisition of Envoy Digital Limited, based in Wimbledon, London
- 13 subsidiaries in Europe and USA
- KPS among the TOP 7 German e-commerce agencies
- KPS among the TOP 10 German Management Consultancies
- KPS among the TOP 100 most innovative medium-sized companies in Germany
- 29.06.18: Laying the foundation stone for the new building at Lake Phoenix in Dortmund
- **Sales of 172 million euros**

2019

- KPS and Infront again awarded Best Consultant in Germany (brand eins and Statista)
- Envoy / KPS is UK eCommerce Agency of the Year 2019
- KPS among the best 50 companies for the second time (Bavaria's Best 50)
- KPS among the TOP 10 German Management Consultancies
- KPS again among the TOP 100 most innovative companies in the SME sector
- Opening of the new building at Lake Phoenix in Dortmund
- 1100 consultants in 9 countries and 14 branches

2018|19

KPS GROUP
MANAGEMENT REPORT

1 FUNDAMENTALS OF THE GROUP

1.1 Business model and methodological expertise

Companies are subject to innovations and accelerated technological change at different levels and in many areas, and they also experience changing customer behavior.

They have to respond to technological change and to changing customer behavior with a tailor-made digitalization strategy. Companies are able to actively structure the change with a proactive digitalization strategy and make use of it positively for their overall strategy and competitiveness.

A digitalization strategy means developing a strategy in order to achieve holistic digitalization for key company and business processes and to transform the system landscape of the company appropriately in accordance with the digitalization strategy developed.

The challenges of the digital transformation of company processes form the core of the business model of KPS.

KPS has specialized in providing its customers with advice on strategic, process, application and technology issues relating to digital transformation, and supporting them in rolling out and implementing solutions. It implements holistic sector-specific and turnkey solutions with products from standard software manufacturers such as SAP, Hybris, Adobe, and Intershop.

KPS pursues an integrative, end-to-end or one-stop-shop approach which encompasses the entire spectrum of services along the value chain: classic merchandise and branch management, finance, B2B and B2C commerce, and digital customer management in marketing and sales.

KPS has developed a dedicated project management method "KPS Rapid-Transformation" for fast and efficient realization of customer projects. The method is based on the core convictions that in many cases digital transformation projects can be implemented to best effect if a start is made by running a lot of sub-tasks and sub-projects in parallel and simultaneously. This method allows transformation projects to be rolled out while the company continues with its normal operations. Furthermore, standard software packages are used from technology partners of KPS. These are tailored to customers' requirements and supplied as corresponding process chains.

The method differs from standard classic approaches in which individual project steps are scheduled one after the other in accordance with the "waterfall method". An important advantage for customers is that media interruptions in the software solution between strategy, process and implementation can be circumvented and avoided. This enables complexity and risks to be reduced and project runtimes to be accelerated.

KPS has built up a robust reference customer base with the consistent application and implementation of the dedicated KPS Rapid-Transformation® Method over a period of many years. This is focused particularly in the areas of retail and consumer goods. Alongside the project management method, the long track record of experience of the consultants and their in-depth sector know-how form another key mainstay for our success.

1.2 Strategy

The strategy of KPS is based on the three mainstays of internationalization, innovation, and industrialization. KPS is continually expanding its international business. By comparison with the year-earlier period, the international contribution to sales rose from 24.9 % to 42.6 % and the corresponding sales by 79.5 % from EUR 42.9 million to EUR 77.0 million in the business year 2018/2019. The acquisitions carried out outside the home market of Germany in the form of ICE Consultants Europe S.A. in Spain, KPS Digital Limited (formerly: Envoy Digital Limited, London) in the United Kingdom, and KPS Consulting A/S in Denmark made a major contribution to this result.

Innovation is a top priority at KPS. The technology teams of KPS are continually engaging with the latest technological developments and they analyze how these can be implemented at customers as efficiently as possible. The focus on innovation ensures that KPS is in a position to advise its customers on the basis of the latest technological standards.

The concept of industrialization: In the world of classical consultancy, specific project teams are formed for each customer. Generally speaking, these teams develop and roll out solutions on site at the customer. Often, strategic advice, conceptual development, implementation, and handover are commissioned from different management consulting firms. KPS pursues a dedicated contrarian approach compared with the classic approach. This involves innovative, standardized technological concepts and process chains being developed that can be used for any number of projects. As result, this approach yields several advantages for the customers and employees of KPS. First of all, project runtimes are significantly shortened, if existing process chains can be used. Secondly, parts of the project can be realized on the premises of KPS instead of on site at the customer. This reduces the resource input for projects.

1.3 Customer structure

Last year, KPS further consolidated its position as a leading-edge management consulting firm for retail and the consumer goods industry, and in parallel expanded its competence in other sectors. The company has a robust customer reference platform in the areas of fashion, food wholesale and retail, chemicals, pharmaceuticals, the furniture trade, sportswear, consumer goods, as well as the service sector and industry. The customer portfolio now also includes energy utilities and public-sector companies, as well as industrial businesses and engineering companies in B2B business.

Successfully structuring changes while simultaneously ensuring optimum value for money forms the basis for the high quality of consultancy, generating significant benefits for our customers from a wide range of different sectors.

1.4 Consultation and service portfolio

The most innovative solution will be a crucial factor in outperforming the competition in the future. A digital transformation and omnichannel strategy across the company already now constitutes the enabler for overcoming highly complex challenges. A customized approach and business management in real time require a fundamental change in operational and cultural mindset across the entire organization. The implementation of digital business models with innovative IT technologies is therefore the crucial challenge in the global market for consultancy and service packages.

KPS advises its customers on strategic issues relating to digital transformation such as business model strategies and innovation ecosystems. When rolling out business transformation and implementation in companies, KPS provides end-to-end process chains integrated for the relevant sector and tailored to the customer's needs, and implements these chains using the relevant technologies. Right from the start, KPS also advises its customers on the necessary change management. In production operation, KPS assists its customers in application and site management, as well as in support.

The experts from KPS have the knowledge, the experience, and the sector background that is required for this role, and this lead is safeguarded by continuous investments in tools, people, and technologies. KPS consultants and specialists always take account of the international and technological needs of our customers in the course of their work. Our guiding principle is to deliver everything from a single source so that targets do not simply remain in the realm of objectives. The transformation consultants and specialists at KPS focus on the actual implementation of recommendations for action and solutions. This provides us with a profile that is markedly distinct from the traditional competitors among strategy and process consultants.

1.5 Research and development

KPS invests in the area of research and development, and this is mainly directed toward improvements in the technical integration of different software platforms like SAP and Hybris. We regard ourselves as the market leader among management consultants for this integration process. KPS also invests in the development of new operating concepts for software applications. Since the business year 2015/2016, intensive development work has been carried out on standardizing SAP processing streams. In the business year 2018/2019, 2.0 (previous year: 2.3) million euros were posted as own work capitalized. The developments capitalized as assets in the business year were only partly completed on the balance sheet date and amortization amounted to 0.4 (previous year: 0.1) million euros.

Additional development services are provided for digitalization and the development of digital business models. A team of several employees is continually deployed for research and development functions. As necessary, other employees are also given research and development assignments on a temporary basis.

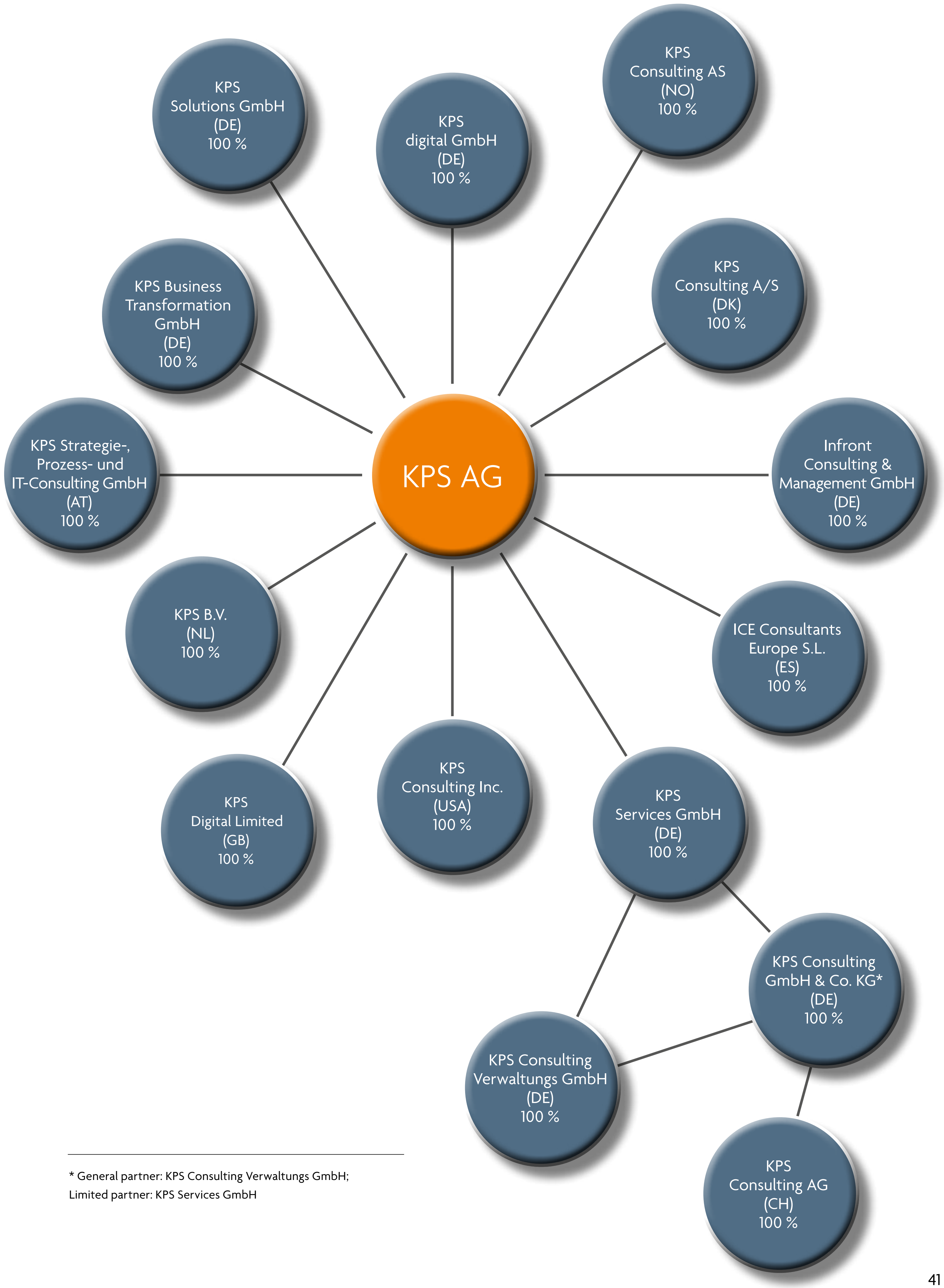
1.6 Group structure and branch offices

KPS AG is the legal parent company of the KPS Group which operates in Germany, in European countries outside Germany, and in the USA through legally independent subsidiary companies.

The Executive Board of KPS AG is responsible for the independent leadership of the company. The Supervisory Board appoints, monitors and advises the Executive Board, and is strongly integrated into decisions which are of fundamental importance for the company.

In the business year 2018/2019, the KPS Group was able to establish its position as one of the leading providers in the area of digital transformation both in Germany and in Europe through integration of the subsidiaries and affiliates acquired during previous years in the form of Infront Consulting & Management GmbH (Hamburg, Germany), ICE Consultants Europe SL (Barcelona, Spain), and KPS Digital Limited (formerly: Envoy Digital Limited, London, United Kingdom).

KPS AG is therefore strengthening its market position in Germany and Europe as one of a select group of consulting partners.



* General partner: KPS Consulting Verwaltungs GmbH; Limited partner: KPS Services GmbH

1.7 Location and employees

The employees of KPS impress their customers through their expert knowledge and their exceptional performance and commitment. This is based on a high level of specialist qualification and continuous advanced training for all personnel. KPS also applies these standards when appointing new employees. The key guiding principles are an optimum customer-centric approach, exceptional performance and commitment, safeguarding and improvement of the KPS quality standards, and a positive working environment. On 30 September 2019, the KPS Group employed a total of 618 employees (previous year: 591). This means that the workforce increased by 27 employees or 4.6 % in the business year 2018/2019. In Germany, KPS employs a workforce of 448 employees (previous year: 457), which is equivalent to a share of 72.5 % (previous year: 77.3 %) in the Group overall. The average number of employees in the year under review amounted to 586 (previous year: 565). The rise by 21 employees or 3.7 % is primarily based on the increase in business volume.

Personnel expenses increased by 4.2 million euros or by 6.8 % to 66.4 (previous year: 62.2) million euros in the business year 2018/2019.

Employee indicators

The following table provides an overview of the development of the number of employees by regions and functions.

Employees of the KPS Group

	30.09.2019	30.09.2018	Change
Employees by region			
Germany	448	457	-9
Spain	89	65	24
United Kingdom	48	35	13
Denmark	20	20	0
Switzerland	7	8	-1
Austria	4	5	-1
Netherlands	2	1	1
Total	618	591	27
Employees by function			
Executive Board	1	1	0
Managing Directors	15	14	1
Consultants	519	508	11
Administration	82	67	15
Apprentices	1	1	0
Total	618	591	27

Alongside the Managing Directors listed above, the Member of the Executive Board of KPS AG, Mr. Leonardo Musso, also holds posts as a Managing Director (in a total of 15 additional companies). From 30 September 2019, 16 persons were therefore employed as Managing Directors in the KPS Group.

1.8 Group controlling system

A monitoring and controlling system is in place at the KPS Group which is directed toward increasing the value of the entire Group. Targets are derived from the system and defined for the individual segments and the Group company. Controlling is managed at the Group level and is implemented through the segments down to the individual profit center levels. Periodic controlling is carried out on the basis of the international accounting and valuation principles. Alongside sales and EBITDA, specific segment and profit-center indicators are used as indicators for controlling.

2 BUSINESS REPORT OF THE KPS GROUP

2.1 Macroeconomic development

2.1.1 Development of the global economy

Stabilization at a low level

According to the International Monetary Fund (IMF), the global economy weakened in 2018. After the growth rate of global gross domestic product was 3.8 % in 2017, it fell back to 3.6 % in 2018. For the calendar year 2019 overall, the IMF is anticipating a further decline and forecasts growth for the global economy amounting to 3.0 %, which equates with a reduction in expectation by 0.3 percentage points compared with estimates in April 2019. The expected global economic growth for 2019 is therefore at the lowest level since the global financial crisis in 2008/2009. Increasing global uncertainties and trade conflicts between big global players such as China, the USA and the European Union are the main drivers for weakness in global economic growth.[1]

The IMF anticipates a slight acceleration of growth in the global economy for 2020 and is assuming a growth rate of 3.4 %. The anticipated slight recovery is expected to be carried in particular by an upturn in the regions of Central and South America, robust growth in the emerging European countries and an acceleration among countries in the Middle East. Conversely, a further weakening of economic growth is projected in the USA, in China and in Japan. Overall, there continue to be high risks for global economic development and there remains a high risk of a correction to growth expectations as a result of ongoing trade conflicts, political uncertainties and weak demand.[2]

2.1.2 Development in the eurozone:

Diverging developments in individual countries

GDP growth in the eurozone fell back to 1.9 % in 2018. The Kiel Institute for the World Economy (IfW) expects a further slowdown in economic growth to 1.2 %[3] in 2019.

However, growth rates between the individual member countries diverge considerably from each other. In the second quarter of 2019, Germany only achieved growth of 0.4 % compared with the equivalent year-earlier period and heavyweight Italy posted stagnation. Conversely, GDP growth in France at 1.4 % and in Spain at 2.3 % was comparatively robust.[4]

The inflation rate in the eurozone looks set to continue on a path of moderate development and is likely to remain below the ECB target of 2.0 %. An inflation rate of 1.7 % is therefore anticipated in the eurozone for the years 2019 and 2020.[5]

1 IMF, World Economic Outlook 2019, 15 October2019, https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019

2 IMF, World Economic Outlook 2019, 15 October 2019, https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019

3 IFW – Institute for the World Economy, Kiel Economic Reports, Economy in the Eurozone, 10 September 2019, https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2019/euroraum-robuste-expansion-aber-mit-wenig-schwung-0/

4 IFW – Institute for the World Economy, Kiel Economic Reports, Economy in the Eurozone, 10 September 2019, https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2019/euroraum-robuste-expansion-aber-mit-wenig-schwung-0/

5 Joint Diagnosis in Fall 2019, 2 October 2019, http://gemeinschaftsdiagnose.de/wp-content/uploads/2019/10/GD_H19_Langfassung_online.pdf

The risks of a downturn for the economy remain high owing to the current global trade conflicts and political uncertainties. A potential disorderly exit of the United Kingdom from the EU without any agreement about future trade relations continues to be a significant economic risk.[6]

2.1.3 Development in Germany

Ongoing weakness in industry

In 2018, economic growth in Germany amounted to 1.5 %. The comparatively low growth is partly due to one-off effects like weather-related low water on the River Rhine and the difficulties of the automobile industry with WLTP-related production losses.[7]

The Kiel Institute for the World Economy (IfW) predicts a further fall in GDP growth to 0.4 %. Industry in Germany has now been in recession for a number of quarters. Hence, gross value added for capital equipment declined between the second quarter of 2018 and the second quarter of 2019. In the second quarter of 2019, the rate was -4 %. The smoldering trade conflicts, uncertainties about the exit of the United Kingdom from the European Union, and weaker economic trade have led to a decline in global demand for investment goods.[8]

According to the IfW, the German employment market has peaked. Although a low level of unemployment continues to be predicted, the drop in the unemployment rate has ended.[9]

2.2 Sector-specific framework conditions

2.2.1 Robust growth amid deteriorating sentiment

According to the Federal Association of Management Consultants (BDU), sales in the consulting sector in Germany rose by 7.2 % to 33.8 million euros and continued on a robust trajectory. For 2019, the BDU is continuing to anticipate sustained growth and expects a growth rate of 7.1 % (forecast from March 2019).[10]

In 2019, sentiment became depressed. The BDU Business Climate Index fell from 102.3 to 98.7 in the second quarter of 2019.[11]

German industry is particularly impacted by uncertainties associated with the global trade conflicts and it is deferring new investments. This is correspondingly reflected in the demand for consulting services. Nevertheless, 35 % of the companies surveyed still have an optimistic outlook on the future. This represents a slight reduction by two percentage points compared with the year-earlier period.

6 IFW – Institute for the World Economy, Kiel Economic Reports, Economy in the Eurozone, 10 September 2019, https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2019/euroraum-robuste-expansion-aber-mit-wenig-schwung-0/

7 IFW – Institute for the World Economy, Kiel Economic Reports, German Economy in Fall 2019, 10 September 2019, https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2019/deutsche-wirtschaft-im-abwaertssog-0/

8 IFW – Institute for the World Economy, Kiel Economic Reports, German Economy in Fall 2019, 10 September 2019, https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2019/deutsche-wirtschaft-im-abwaertssog-0/

9 IFW – Institute for the World Economy, Kiel Economic Reports, German Economy in Fall 2019, 10 September 2019, https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2019/deutsche-wirtschaft-im-abwaertssog-0/

10 BDU – Federal Association of German Management Consultants, management consultants also plan significant increase in sales for 2019, 14 March 2019; https://www.bdu.de/media/353287/branchenstudie-unternehmensberatung-2019.pdf

11 BDU – Federal Association of German Management Consultants, Economy: The Engine is also Misfiring in the Consulting Business, 4 July 2019; https://www.bdu.de/media/353812/geschaeftsklima_q2-2019.pdf

Conversely, the number of consulting companies with pessimistic outlooks for the future increased from 9 % in the second quarter of 2018 to 16 % in the second quarter of 2019.

In particular, strategy, IT and restructuring consultants expressed a positive sentiment for the future.[12]

2.2.2 Positioning of the KPS Group

Digitalization as a competitive factor in retail

Ongoing digitalization will continue to shape the development of companies in stationary retailing and in the e-commerce sector, but also in other sectors. Complexity and the increasingly short-term nature of business are also accelerating the necessity for customers to undergo digital transformation and therefore the requirement for specialist consulting.

High inputs for resources such as personnel, know-how and funds will be required in order to successfully meet the burgeoning pressure for innovation. Not every company will be able to keep pace with this highly dynamic momentum. This is where IT consulting companies can help by providing assistance for customers with the transformation process of business models into the digital world. Big data, omnichannel solutions and supply-chain management are just some of the fields where expert consulting and tailormade measures enable successes to be achieved quickly and sustainably. Consultancy companies like KPS with its Rapid-Transformation® Method have a competitive advantage since they proactively and promptly implement projects in the area of service, product and process innovations.

In 2019, KPS is also positioned among the Top 10 for German consultancy companies according to the Lünendonk & Hossenfelder Ranking. Furthermore, the study published by Lünendonk & Hossenfelder on the German consulting market also highlights the outstanding positioning of KPS. In particular, companies are making enquiries about consultancy know-how in the area of digitalization and perceive a requirement in the digitalization of each individual company function.[13]

In 2018, growth in German management consultancies continued. Total sales inside and outside Germany increased to more than 10 % to around 2.3 billion euros. Growth of nearly 11 % is anticipated for 2019.[14]

2.3 Business performance and sales development

In the business year 2018/2019, the KPS Group achieved sales of 180.7 million euros, which is equivalent to growth of 4.9 %. The key driver for the growth was the trust of prestigious customers from the sectors of retail and the consumer goods industry in our highly integrated, digital transformation solutions. Current projects with portfolio customers and first-time projects with new customers had contributed to sales.

12 BDU – Federal Association of German Management Consultants, Economy: The Engine is also Misfiring in the Consulting Business, 4 July 2019; https://www.bdu.de/media/353812/geschaeftsklima_q2-2019.pdf

13 Lünendonk, Lünendonk List 2019, 25 June 2019, www.luenendonk.de/produkte/listen/luenendonk-liste-2019-managementberatungs-unternehmen-in-deutschland

14 Lünendonk, New: Lünendonk Study 2019 Management Consulting in Germany, 14 August 2019, www.luenendonk.de/aktuelles/presseinformationen/neu-luenendonk-studie-2019-managementberatung-in-deutschland/

Business with licenses and products exerted a countervailing effect. Sales in this segment fell back by 11.3 million euros. It is important to note here that exceptionally high license sales were generated in the business year 2017/2018 owing to a customer requirement.

Furthermore, projects with our biggest customer continued to be in a transition phase during the past business year. Sales with this customer therefore declined by 13 million and amounted to 28.9 (previous year: 41.8) million euros in the year under review.

In the business year 2018/2019, the KPS Group once again underwent significant growth with sales growth of 4.9 % to 180.7 million euros. On the one hand, the sales growth is due to increased sales gained from new transformation projects acquired during the reporting period. On the other hand, the companies ICE Consultants Europe S.L., Barcelona, Spain, KPS Digital Limited (formerly: Envoy Digital Limited, London, United Kingdom) and Infront Consulting & Management GmbH, Hamburg, acquired in the previous year contributed overall sales amounting to around 31.0 (previous year: 18.5) million euros. A fall in sales in the amount of 13 million euros from orders of a major customer were therefore balanced out by additional sales generated from new company acquisitions.

Business performance and sales by segments and regions

The structure of sales on the basis of reportable segments has changed slightly compared with the previous year owing to the effect in the segment Licenses and Products. 94.2 % (previous year: 87.8 %) of the sales were generated in the strategically important segment Management Consulting/Transformation Consulting. Once again, 1.1 % (previous year: 0.8 %) of the sales were generated in the System Integration segment. 4.7 % (previous year: 11.5 %) of the sales originated from business with products and licenses.

The comparatively high growth demonstrated by our international activities from 79.5 % to 77.0 million euros increased the sales contribution from abroad to 42.6 % in the business year 2018/2019 from 24.9 % in the previous business year.

The breakdown of revenues by regions yields the following picture for the business year 2018/2019: Germany continued to be the primary sales mainstay with 103.7 (previous year: 129.3) million euros or 57.4 % (previous year: 75.1 %), followed by Scandinavia with a volume of 40.8 (previous year: 16.4) million euros or 22.6 % (previous year: 9.5 %). This is followed by Spain with a volume of 12.3 (previous year: 11.8) million euros and a share of 6.8 % (previous year: 6.9 %). Then come the BENELUX countries with 10.0 (previous year: 6.8) million euros or 5.5 % (previous year: 4.0 %), the United Kingdom with 9.7 (previous year: 4.0) million euros or 5.4 % (previous year: 2.3 %), and Switzerland with 3.1 (previous year: 0) million euros or 1.7 % (previous year: 0 %). The remaining revenues amounted to 1.1 (previous year: 1.8) million euros or 0.6 % (previous year: 1.0 %) and were principally generated in the other EU countries.

EBITDA development
In the previous business year, EBITDA was increased by 13.0 % to 22.6 (previous year: 20.0) million euros. This corresponds to an EBITDA margin of 12.5 % and is therefore 0.9 percentage points above the margin in the previous year (11.6 %).

As a result of the significantly better development than originally envisaged of ICE Management Consulting, Spain, and Infront, Germany, acquired last year, additional earn-out payments totaling 4.8 million euros were due in the business year under review. These had to be taken into account and were charged to the income statement. Adjusted by this effect, EBITDA would amount to 27.4 million euros and the EBITDA margin would increase accordingly to 15.2 %.

2.3.1 Order backlog
KPS includes among its customers leading large and mid-sized companies from German-speaking regions and the international arena. These companies value the high level of expertise and quality of KPS and place a high degree of trust in the competence of our consultants for implementation. Major leading companies from retail and the consumer goods industry, as well as from the sectors of services, industry, engineering, energy utilities, and from government agencies put their trust in experts at KPS to implement their transformation initiatives. Over the past business year, KPS has continued to expand its national and international customer base, and we have further consolidated our long-standing cooperation contracts in the area of application management services and support. The order backlog and incoming orders were consistently enhanced during the period under review. The agreements for the current projects are generally contracted over a number of years, and assuming these projects are implemented in accordance with the contracts, orders overall will extend over a projected period of more than one year.

The average rates of utilization capacity for KPS Consultants stabilized over the entire business year 2018/2019 at the very high level of virtually 100 %. Once again, this matched the already excellent capacity utilization in the reporting period 2017/2018. KPS is operating among the premier leading field of consultants with this rate of capacity utilization.

2.4 Results of operations, capital structure and asset situation

Overview of results of operations, capital structure and asset situation

in million euros	2018/2019	2017/2017
Group sales	180.7	172.2
EBITDA	22.6	20.0
EBIT	18.8	16.6
Group earnings	12.2	9.8
Earnings per share (in euros)	0.33	0.26
Cash and cash equivalents	9.9	9.1
Financial liabilities	17.4	21.2

2.4.1 Results of operations of the KPS Group
KPS was able to continue to derive positive benefit from the economic and sector-specific development, and sales increased during the business year under review compared with the previous year. The key driver for growth was above all the trust placed in us by major customers from the retail sector and the consumer goods industry, with increasing demand for highly integrated digital transformation solutions. Furthermore, the new subsidiaries acquired in the course of the previous year contributed to Group sales throughout the entire business year for the first time. During the period under review, the operating result before depreciation and amortization (EBITDA) went up during this period to 22.6 (previous year: 20.0) million euros.

Overview of the income statement

in KEuros	2018/2019	2017/2018
Revenues	180,656	172,223
Own work capitalized	2,450	2,832
Other operating income	615	3,233
Cost of materials	-62,678	-68,489
Personnel expenses	-66,410	-62,187
Other operating expenses	-32,083	-27,588
Operating result before depreciation and amortization (EBITDA)	22,550	20,024
Depreciation and amortization (M&A adjusted)	-1,414	-850
Operating result (EBIT) adjusted	21,136	19,174
Depreciation and amortization (contingent on M&A)	-2,333	-2,581
Operating result (EBIT)	18,803	16,593
Financial result	-876	-1,326
Earnings before income taxes *	17,927	15,267
Income taxes	-5,735	-5,436
Earnings after income taxes	12,192	9,831

* corresponds to the result from ordinary business activities

Revenues
Revenues rose by 4.9 % to 180.7 (previous year: 172.2) million euros in comparison with the previous year. The result was therefore within the range of the forecast of 170 – 180 million euros issued on 31 January 2019.

This is primarily due to the increased sales from transformation projects newly acquired or concluded during the period under review. Positive effects also continued to be posted from the company acquisitions made in the previous year.

Two major clients are included in the "Management Consulting/Transformation Consulting" segment in accordance with IFRS 8.34 (previous year: one major customer). The revenues generated amount to 54.4 (previous year: 41.8) million euros.

Own work capitalized
Own work capitalized amounted to 2.4 (previous year: 2.8) million euros over the course of the business year under review. This essentially relates to intangible assets valued at 2.0 (previous year: 2.3) million euros developed in-house (development costs) for SAP process streams and internally generated software amounting to 0.4 (previous year: 0.5) million euros.

The total amount of development costs incurred in the business year 2018/2019 was capitalized under assets. No research work was carried out.

Other operating income
As was the case in the previous year, other operating income includes income from operational additional services, such as gains from currency differences, income from releases of provisions, or discounts. Overall, other operating income decreased by 80.6 % to 0.6 (previous year: 3.1) million euros during the period under review compared with the previous year. The strong decrease essentially results from the releases of earn-out payments for Infront Consulting & Management GmbH and the releases of earn-out payments for the shares in Saphira booked in the business years 2017/2018.

Cost of materials
During the period under review, the cost trend adjusted appropriately to business performance, taking into account the significant increase in sales. The project-related cost of materials, which primarily includes the costs for bought-in subcontracted services, went down by 5.8 million euros (8 %) from 68.5 million euros to 62.7 million euros. The expenses for purchased hardware and software decreased significantly to 2.1 (previous year: 7.9) million euros compared with the reporting period 2017/2018. The main reason for the decrease was due to a one-off effect from the business year 2017/2018 where high license costs were incurred in the course of a customer project.

Personnel expenses
Personnel expenses amounted to 66.4 (previous year: 62.2) million euros and these expenses increased by 4.2 million euros (6.8 %) compared with the equivalent year-earlier reporting period. At the end of the business year 2018/2019, 618 employees were working in the KPS Group (previous year: 591). As in the previous year, the growth in the workforce is due to the increase in the number of new appointments made in the course of the ambitious expansion of the workforce during the reporting period.

Other operating expenses
Other operating expenses increased by 16.3 % to 32.1 (previous year: 27.6) million euros compared with the equivalent year-earlier reporting period. They mainly include travel expenses and vehicle operating costs amounting to 10.9 (previous year: 10.6) million euros, earn-out obligations with 4.8 (previous year: 2.2) million euros, legal, auditing and capital-market costs at 1.8 (previous year: 2.4) million euros, non-project-related subcontracted services at 3.7 (previous year: 2.5) million euros, and premises and operating costs at 4.4 (previous year: 3.7) million euros.

Depreciation and amortization
Total depreciation and amortization (depreciation and M&A-related amortization) rose to 3.7 (previous year: 3.4) million euros. The reason for the high level of requirement for depreciation and amortization is the intangible assets acquired in connection with the acquisition of Infront Consulting & Management GmbH amounting to 0.1 million euros, KPS Digital Limited (formerly: Envoy Digital Limited) amounting to 0.2 million euros and the Spanish subsidiary company ICE Consultants Europe S.L. amounting to 1.0 million euros. Amortization amounting to 1.0 million euros was recognized in the current business year for the subsidiary company Saphira Consulting A/S acquired in the business year 2016/2017.

Financial result
The financial result of the Group is negative in the year under review and amounts to -0.9 (previous year: -1.3) million euros. The negative financial result essentially comes from compounding of the earn-out liabilities arising in connection with the acquisition of Infront Consulting & Management GmbH, KPS Digital Limited (formerly: Envoy Digital Limited), and ICE Consultants Europe S.L. with a total amount of 0.5 (previous year: 0.9) million euros.

Income taxes
Taxes on income and earnings amounting to 5.7 (previous year: 5.4) million euros primarily include current expenses for corporate income tax, solidarity surcharge, and trade tax amounting to 5.6 (previous year: 3.2) million euros, and expenses from deferred taxes amounting to 0.1 (previous year: 2.2) million euros.

Earnings after income taxes
The consolidated income from the period under review rose by 24.5 % from 9.8 million euros to 12.2 million euros.

2.4.2 Capital structure
Financial management at KPS has always been directed toward safeguarding the liquidity of the company at all times. It encompasses capital-structure, cash and liquidity management.

Development of equity
The share in equity attributable to shareholders of KPS AG decreased by 0.8 million euros compared with the previous year and amounted to 64.2 (previous year: 65.1) million euros on 30 September 2019. The equity ratio came down from 46.5 % to 45.2 %, compared with the balance sheet date in the previous year. A detailed explanation is provided in the statement of changes in shareholders' equity.

Development of liabilities
Apart from deferred tax liabilities amounting to 1.7 (previous year: 2.2) million euros, non-current liabilities amounting to 24.1 (previous year: 28.0) million euros primarily relate to personnel and pension obligations amounting to 3.7 (previous year: 3.1) million euros and liabilities for the earn-out payments likely to be expected amounting to 10.1 (previous year: 10.2) million euros. Furthermore, KPS AG floated a long-term loan in the context of a company acquisition, which is being capitalized under non-current liabilities with a residual amount of 8.6 (previous year: 12.4) million euros on the balance sheet date.

An increase in current liabilities by 7.1 million euros to 53.9 (previous year: 46.8) million euros was posted by comparison with the balance sheet date for the previous year. The change essentially results from taking out short-term money-market loans to secure liquidity amounting to 5.0 million euros and from a reclassification of non-current financial liabilities amounting to 3.8 million euros contingent on the residual term. The other liabilities increased by 4.7 million euros to 17.2 (previous year: 12.5) million euros. The reason for the increase is earn-out liabilities recognized under liabilities in the income statement amounting to 10.0 (previous year: 7.1) million euros.

As part of financial management, an interest-rate swap was concluded in the amount of 10 million euros to hedge the interest-rate risk of the long-term loan. The valuation was carried out on the basis of market data on the valuation reference date and using generally recognized valuation models.

Trade liabilities decreased by 0.4 million euros from 10.9 million euros to 10.5 million euros.

At the end of the business year, advance payments received amounted to 0.1 million euros and fell by 1.9 million euros mainly due to the changeover effect as a result of the first-time application of IFRS (in the previous year IAS 11).

Development of liquidity

Strengthening and safeguarding liquidity continued to be a top priority during the year under review. In this connection, it was necessary to provide the required liquid funds for continuing operations and for financing further growth of KPS, partly by taking on outside borrowings.

Liquidity planning is continually adjusted and monitored, cash pool agreements with the domestic subsidiary companies of KPS AG are in place with the company's principal banks.

On 30 September 2019, the KPS Group had cash amounting to 9.9 (previous year: 9.1) million euros. On the balance sheet date, total liabilities to banks amounted to 17.4 (previous year: 21.2) million euros. These result from floating a long-term loan with a total term of five years for financing company acquisitions in the amount of 12.4 (previous year: 16.2) million euros and taking out short-term money-market loans to safeguard liquidity amounting to 5.0 (previous year 5.0) million euros. Taking account of the money-market loan, net liquidity on the balance sheet date amounts to 4.9 million euros and this has therefore gone up by 0.8 million euros as compared with the year-earlier figure.

Cash flow from current activities amounted to 24.0 million euros in the year under review compared with 17.8 million euros in the previous year. Cash flow from investment activities amounted to 5.9 (previous year: -24.9) million euros and relates to the investments initiated in fixed assets and company acquisitions. Cash flow from financial activities amounted to -17.2 (previous year restated: 7.8) million euros in the business year under review.

There were unused credit lines amounting to 13.1 million euros on the balance sheet date.

2.4.3 Net assets

Net assets and capital structure of the KPS Group (abbreviated version)

in KEuros	2018/2019	2017/2018
Non-current assets	84,653	85,248
Current assets	57,606	54,619
Total assets	142,259	139,867
Shareholders' equity	64,241	65,080
Non-current liabilities	24,077	27,959
Current liabilities	53,941	46,828
Total liabilities	78,018	74,787
Total shareholders' equity and liabilities	142,259	139,867

The KPS Group has a term-congruent balance sheet structure. The increased business scope is essentially reflected in the balance sheet total. On 30 September 2019, this amounted to 142.3 (previous year: 139.9) million euros, increasing by 2.4 million euros or 1.7 % compared with the previous year.

Development of assets

The assets tied up in medium to long-term assets amount to 84.7 (previous year: 85.2) million euros on the balance sheet date.

These primarily relate to the goodwill from earlier acquisitions of KPS AG amounting to 62.6 (previous year: 62.6) million euros.

Other intangible assets amounted to 15.7 (previous year: 16.2) million euros in the period under review. The changes result on the one hand from capitalization of development costs as assets amounting to 2.0 (previous year: 2.3) million euros and capitalization of internally generated software as assets amounting to 0.4 (previous year: 0.5) million euros, and on the other hand from depreciation and amortization for development costs and internally generated software, and from depreciation and amortization on assets in the context of company acquisitions amounting to 3.1 million euros. On the balance sheet date, property, plant and equipment amounted to 1.7 (previous year 1.0) million euros.

During the year under review, 3.9 (previous year: 34.0) million euros were invested in property, plant, and equipment, and intangible assets.

The capitalized deferred taxes amount to 4.8 (previous year: 5.5) million euros.

Receivables from contractual assets, trade receivables, and other assets recognized under current assets amounting to a total of 46.7 (previous year: 45.3) million euros increased by 1.4 million euros compared with the equivalent year-earlier value.

2.4.4 Appropriation of profits

Earnings after income taxes amounted to 12.2 million euros in the year under review and therefore increased by 2.4 compared with the previous year (9.8) million euros. For the proposed dividend of 13.1 (previous year: 13.1) million euros, the payout rate would amount to 107.4 % of Group earnings generated. This dividend proposal takes account of the profitability and the dependable payout continuity of KPS AG.

2.5 Financial and non-financial performance indicators

2.5.1 Calculation of EBITDA

EBITDA increased by 2.6 million euros from 20.0 million euros in the previous year to 22.6 million euros during the business year 2018/2019 and this was therefore within the forecast target range (22 – 27 million euros). This corresponds to an increase of 13.0 %.

The EBITDA margin went up by 0.9 percentage points to 12.5 % (previous year: 11.6 %) based on sales of 180.7 (previous year: 172.2) million euros.

2.5.2 Calculation of sales

The net sales achieved by KPS as a whole and the breakdown of revenues into the three main segments of KPS, management consulting, system integration, and products/licenses, serve as a standard parameter for a sector comparison with competitors and for measuring the development of KPS.

The original expectations of 170 – 180 million euros were achieved with revenues of 180.7 (previous year: 172.2) million euros.

Sales volume amounted to 170.3 (previous year: 151.2) million euros and the KPS Group generated the lion's share from management consultancy projects with prestigious customers from retail and the consumer goods industry. The other two main segments of system integration and products/licenses contributed 2.0 (previous year: 1.3) and 8.4 (previous year: 19.7) million euros respectively to annual sales.

2.5.3 Personnel

Our employees impress their customers through their expert knowledge and their exceptional performance and commitment. This is based on a high level of specialist qualification and continuous advanced training for our personnel. We also apply these standards when appointing new employees. Our key guiding principles are an optimum customer-centric approach, exceptional performance and commitment, safeguarding and improvement of our quality standards, and a positive working environment.

On 30 September 2019, the KPS Group employed a total of 618 employees (previous year: 591). This means that the workforce increased by 27 employees or 4.6 % in the business year 2018/2019. This is essentially due to the expansion of business activity. In Germany, we employed a workforce of 448 employees (previous year: 457), which is equivalent to a share of 72.5 % (previous year: 77.3 %) in the Group overall. The average number of employees in the year under review amounted to 586 (previous year: 565) including the Executive Board and Managing Directors. The rise by 21 employees or 3.7 % is primarily based on the increase in business volume.

Personnel expenses increased by 4.2 million euros or by 6.8 % to 66.4 (previous year: 66.2) million euros in the business year 2018/2019.

2.6 Alternative performance indicators

EBIT as an indicator of the overall operating and non-operating result for the company went up by 2.2 million euros from 16.6 million euros in the previous year to 18.8 million euros in the business year 2018/2019. Compared with the equivalent year-earlier period, the increase amounted to 13.3 %.

For purposes of increasing transparency, an adjusted EBIT (operating result adjusted) is recognized alongside EBIT, which presents the operating result (EBIT) before "M&A-related depreciation and amortization".

Based on sales of 180.7 (previous year: 172.2) million euros, the EBIT margin went up by 0.8 percentage points to 10.4 %.

2.7 Overall assessment of the Executive Board and comparison with the previous year

KPS recorded a successful business year for the period 2018/2019. The Executive Board has a positive assessment of the economic situation and the future perspectives of the company. The revenues were once again improved by comparison with the previous year, with the forecast sales for the business year 2018/2019 being achieved.

An equity ratio of 45.2 % (previous year: 46.5 %) means that KPS continues to be on a robust financial platform. The excellent financial base and the capital expenditure initiated in development services have created the enablers for an ongoing successful future.

3 OPPORTUNITIES AND RISK REPORT

The following opportunities and risks described below apply equally to all the reported segments.

3.1 Risk management targets and methods of the KPS Group

KPS only enters into risks if they are regarded as controllable, and the associated opportunities justify the expectation of an appropriate increase in value. KPS interprets risk to mean negative results or unfavorable impacts on a project at a point in time in the future. Established controlling procedures and defined processes anchored in the KPS Rapid Transformation® Method can respond promptly to unexpected results, and countermeasures can be actioned against such trends in good time.

An efficient management information system was established on the basis of innovative reporting instruments. This is being continuously adjusted to match the current challenges for the company and further developed on an ongoing basis. The management has a comprehensive finance and controlling system at its disposal to identify, monitor and control the risks that KPS is exposed to. The system provides the management with all the necessary information to a high standard of quality on a daily basis. Risks are identified by experienced project managers in regular reviews with the Vice Presidents and the Executive Board.

3.2 Individual opportunities and risks

3.2.1 Macroeconomic opportunities and risks

Risks for the global economy arising from trade conflicts, Brexit and emerging economies

According to the most important economic research institutes in the German-speaking countries, the trading climate is becoming tougher. Protectionist threats are now also being implemented in the USA and new tariff barriers can frequently only be prevented at the price of new non-tariff trade restrictions. Ongoing conflicts with China and the EU continue to present downside risks in this respect. Within Europe, the EU and the United Kingdom are in principle agreed that close relationships should be maintained in the future. The two sides are making efforts to implement a transition phase for negotiating detailed agreements. However, acceptance of the deal negotiated for the exit of the United Kingdom from the EU continues to be in the balance and presents a significant downside risk if there is a disorderly exit. The political disturbances in many countries of Latin America could result in a deterioration of the economic climate. The uncertainties of economic developments in Turkey continue to remain high.

Forecasts by the IMF indicate that the global economy overall is likely to continue to weaken in 2020 and reach the lowest level since the financial crisis of 2008/2009. In 2020, the IMF is anticipating a recovery particularly in the emerging economies. However, the high global uncertainty factors and political crises could lead to a potential revision of the expectations[15].

Significant risks to the German and European economies

The economic development in Germany and the most important European markets, and the associated change in investment behavior exerted a significant impact on the financial position and results of operations, and the asset situation of the KPS Group. In the course of research activities, KPS regularly analyzes studies and forecasts produced by economic institutes in order to gain the necessary overview of the likely development of the economy in markets relevant to KPS.

On the basis of the order backlog currently in place and extending over a considerable range, KPS does not expect any significant impacts on the business situation resulting from the current economic situation. However, the possibility cannot be excluded that a sustained negative economic development could exert a negative impact on sales and income over the medium and long term because the forecasts of leading economic institutes do not lead to any expectations of a significant improvement in the economic situation in Germany over the short term.

Significant risks for the German and European economies originate from a potential new European debt crisis. While the downward trend for returns on government bonds of eurozone members continued in 2019,[16] the indebtedness ratios of many European countries are being sustained at a high level. Other risks have their origin in matters such as the exit of the United Kingdom from the EU, as explained in greater detail in 3.2.3.

Macroeconomic growth in Europe will continue to be borne to a large extent by the relevant domestic economy in the individual countries. If a significant weakness emerges here, this could exert substantial impacts on the sales, profit and liquidity development of KPS.

A further sustained weakness in German industry could exert a negative impact on the economic development in other sectors and therefore negatively influence the retail sector that is important for KPS. If the readiness to invest in retail becomes depressed in future, negative impacts on the order situation of KPS cannot be excluded and hence negative impacts on sales, income, and liquidity.

15 IWF – Institute for the World Economy, World Economic Outlook 2019, 15 October 2019, https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019

16 IFW – Institute for the World Economy, Kiel World Economic Reports, Economy in the Eurozone, 10 September 2019, https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2019/euroraum-robuste-expansion-aber-mit-wenig-schwung-0/, p. 12

3.2.2 Sector-specific opportunities and risks

KPS includes leading large and mid-sized companies from German-speaking regions and the international arena among its customers and has outstanding references.

The ongoing process of digital transformation for companies demands innovative and agile consulting approaches that can be implemented quickly. They provide support for companies in realigning the operational and cultural fundamentals of their business at the strategic, process and technological level. This requires a holistic approach starting with conventional materials management, extending through online business, to digital marketing and into the areas of mobile communication and analytics (big data). KPS invested in digital consulting areas at a very early stage and today it is one of the few management consultants in a position to deliver holistic, company-wide (end-to-end) digital process chains for company controlling in real time, and implement them using standardized software solutions from companies such as SAP, SAP Hybris, Adobe, and Intershop.

KPS expects significant growth momentum in omnichannel, in B2B and also for B2C in retail, and in the service sector and industry, especially as a result of the challenges of digital transformation. KPS has found that procurement structures in companies are undergoing change, and decision-makers are no longer only to be found in the traditional IT or financial sectors. Budgets are increasingly migrating to the marketing and e-commerce departments in companies. Sales and marketing activities, and beyond these the consulting approach, in general, have to be modified to suit these additional new partners in the individual sectors.

The project cycles of KPS customers are becoming shorter as a result of the ongoing march of digitalization. As a result, KPS is finding that when companies select consulting partners, they are increasingly placing weight on the pool of expertise and skills that consulting firms have for supporting transformation projects. The partners have to be able to deploy change management initiatives and measures that are suited to motivating the employees of the individual specialist departments and supporting them in the change process. This means that companies are able to successfully implement a fast ROI project and remain agile in fiercely competitive markets.

Over the past business year, KPS has therefore continued to invest more in the industrialization of the consulting initiative. Strategic alignment, processes, change management, and the roll-out of standard technologies can now be implemented even more effectively, and innovative business ideas can be put into practice even more rapidly.

The high speed of implementation and customer satisfaction following successfully concluded transformation projects enables KPS to conclude long-term contracts for application management services, and support activities. They thereby contribute to the generation of sales.

3.2.3 Risks arising from the exit of the United Kingdom from the EU

The exit of the United Kingdom from the EU (Brexit) continues to be a process where the outcome remains open. The government is now working toward an exit on 31 January 2020. [17] It remains to be seen whether the new deadline can be achieved and whether an exit agreement can be reached.

17 The Federal Government after the British election: An orderly Brexit is now likely, 13 December 2019, https://www.bundesregierung.de/breg-de/themen/brexit/nach-britischen-wahlen-geordneter-brexit-wahrscheinlich-1570622

An exit from the EU in January 2020 without a signed divorce agreement presents KPS AG with a variety of regulatory risks, since in such a case the United Kingdom would be classified as a foreign country outside the EU. KPS AG has a location in London through subsidiary companies, and one of three KPS Innovation Centers is based there. The transfer of employees between this location and other sites, and the import and export of services would then be subject to a different and more restrictive set of regulations.

In the business year 2018/2019, KPS Digital Limited (formerly: Envoy Digital Limited, London), generated revenues of around 9.6 million euros, and the company is therefore not of key importance for the Group as a whole.

On the basis of the actual current development, KPS AG is in a position to take measures in good time in order to minimize direct damage resulting from a potential disorderly Brexit or a change in future trading relationships that would be unfavorable for the company. In the view of the management, these preparations will only make sense if a concrete negative development is foreseeable, so as to avoid unnecessary costs and interruptions in business processes.

3.2.4 Opportunities and risks in order processing

KPS deploys leading-edge technology based on a proven track record with its agile KPS Rapid Transformation® methodology in the process of rolling out projects. The consultants from KPS combine the traditional world of strategy and process consulting in this approach with implementation consulting. The objective is to achieve optimum transformation processes by exploiting synergy potential in the consulting segments. The risk of introduction is thereby significantly reduced.

Generally speaking, the planning and implementation of projects are highly involved and complex. Additional requirements from customers result in changes for the structure or workflow of the project. This entails a risk especially in contracts for services with fixed-price agreements. KPS does not believe that projects invoiced by working hours and resources represent a risk to the continuing existence of the company as a going concern since requirements for change lead to appropriate adjustments in the project budget. Risks arising from fixed-price agreements present a medium-term risk for KPS by their very nature. The probability of a cost overshoot owing to additional customer requirements must be taken into account. Nevertheless, KPS has so far only entered into fixed-price agreements in a few instances. This risk was not therefore expected to exert any key impacts on the earnings situation and this is likely to remain the case.

The complexity of the projects and specifics in the sectors where the clients of KPS are operating can result in technical and/or qualitative issues, challenges, and problems that cannot be resolved by the team of project employees assigned to the project. Risks arising from technical and/or qualitative issues, challenges and problems are however classified as relatively low. In the past, situations of this type could be regularly resolved within a period of time deemed reasonable for the company. Since KPS is increasingly being confronted with new, highly complex issues, challenges and matters relating to problems that arise, situations are conceivable in which any highly complex challenges and problems arising are not resolvable or can only be resolved by expending a great deal of time with a high level of financial input.

Risks from temporary burdens arising from contract terminations are classified as medium or low. Experience indicates that the probability of notice of termination being served on a customer contract or the contract not being extended after the initial prototype phase owing to failures by employees or on account of other events tends to be low. However, if this risk is realized, temporary negative impacts on earnings are to be expected, particularly in the case of major projects, since the employees assigned to the project will often not be deployable on other projects at least in the short term.

KPS is increasingly observing a trend in the marketplace where competitors attempt to emulate the successful model. It is not possible to exclude the possibility that mid-sized and large consulting firms may attempt to take up a strong competitive position against KPS.

3.2.5 Opportunities and risks arising from scale effects

The interest of large companies in the consulting services of KPS has continued to grow as a result of the current size of the company, continually rising annual sales of presently around 180.7 million euros, and a consistently growing, stable consulting team of 618 employees at the moment. The burgeoning appeal of KPS increases the opportunities of being engaged by major clients as a general contractor.

The complexity of consulting initiatives and the corporate scale of its clients means that KPS can only operate with a limited number of major projects at any one time. If there is a failure (insolvency) of one or several of these major clients, a risk to the continuing existence of KPS as a going concern could not be excluded. Major customers of KPS consist entirely of renowned customers, which are deemed to have a high degree of creditworthiness and financial strength, and this risk is therefore classified as medium by KPS.

3.2.6 Personnel risk

Company knowledge is located in the human capital of KPS and it is therefore firmly anchored in the employees of the company. The migration of highly qualified managers and consultants to competitor companies can therefore lead to a loss of know-how and this is hence a risk for KPS. The loss of employees can exert a negative impact on the development of business activities and on key financial indicators. By comparison with competitors, KPS does not believe it is subject to a particularly high or a particularly low risk in this respect. This typical risk specifically in the consulting sector is assessed by KPS as medium.

3.2.7 Opportunities and risks in investment and finance

Currency risks only arise to a limited extent on account of concentration in the eurozone. This also applies to liquidity and interest-rate risks on account of the robust capital and financing structure. The business model of KPS entails managing relatively few but very complex projects at the same time. The objective of finance and risk management is to safeguard the success of the company against any form of financial risk. The company pursues a conservative risk policy in the course of managing financial positions.

The loss of a client can therefore exert a very negative impact on the liquidity situation of KPS. There is a credit risk/default risk for KPS AG insofar as customers, or other debtors are unable to meet their financial obligations. The creditworthiness of our customers or business partners involving large sales volumes is subject to regular review. Accounts receivable are continuously monitored. Project managers and the executive management receive an overview of overdue items for each customer. This enables KPS to respond promptly to any change in a customer's payment pattern. If default and creditworthiness risks are identified in relation to financial assets, write-down adjustments are made as necessary. In order to minimize default risks, the company has an adequate system of receivables management.

The impacts of exchange-rate developments are not classified as important on account of the customer structure and the fact that most invoices are issued in euros.

In the context of several company acquisitions, KPS AG took out a long-term loan in the amount of 20 million euros. An interest-rate swap in the amount of 10 million euros was concluded to hedge the interest-rate risk.

The objective of using derivative financial instruments is to reduce the impacts on earnings and cash and cash equivalents as far as possible that result in connection with changes in interest rates. The variable interest rate was swapped for a fixed interest rate by taking out the interest-rate swap. This achieved a fixed interest rate.

3.2.8 Liquidity risk

The liquidity risk is defined as the risk of not being able to meet payment obligations on the date that they fall due. These include the refinancing risk and the market liquidity risk.

There is no market liquidity risk at KPS (risk of not being able to resolve or settle transactions due to inadequate market depth or market malfunctions, or only by incurring losses).

The refinancing risk was deemed only to be of negligible importance from the perspective of the reporting date and on the basis of the conditions pertaining when the annual financial statements were approved. A refinancing risk is understood as the risk of not being able to create liquidity as required or not at the expected conditions. KPS has sufficiently high credit lines available in order to cover arising financial requirements and KPS therefore classifies this risk as low.

3.2.9 Tax opportunities and risks

The Executive Board is not currently aware of any significant fiscal risks.

3.2.10 Technological opportunities and risks

The possibility of technical risks as a result of errors by employees of KPS cannot be completely excluded. The likelihood of service, support or supply contracts being terminated at short notice as a result could entail temporary burdens on the development of sales and profit.

3.2.11 Opportunities and risks arising from the holding function

Owing to the company's holding function, the asset situation, financial position, and results of operations of KPS AG depend on the economic performance of the subsidiary companies.

3.3 Overall assessment of opportunities and risks

The early risk identification system supports the management in identifying existing risks at an early stage and in instituting appropriate countermeasures. The early risk identification system was subject to a mandatory review in the course of the audit of the financial statements. In summary, the risk analysis yields a satisfactory result on the basis of the information known to us today. The risk analysis indicates that at the current time risks are not identifiable which could have the potential for loss and present a hazard to the continuing existence of the KPS Group and pose a risk for the financial position, results of operations, and asset situation.

3.4 Important features of the internal controlling and risk management system with reference to the Group accounting procedures (report pursuant to Articles 289 Section 4, 315 Section 4 German Commercial Code (HGB)

The accounting and controlling of the KPS Group operate on the basis of an accounting-based internal controlling and risk management system which guarantees the complete, correct, and prompt communication of information, and includes all Group companies. Our objective is to identify, minimize or completely avoid potential risks and negative developments at the earliest possible stage. These measures are intended to avert any losses and a potential risk to the existence of the KPS Group as a going concern. Risks that result from processing orders are identified by controlling at an early stage. Any derivable impending risks are immediately notified to the responsible Vice Presidents and Managing Partners, and discussed in internal management meetings, and appropriate countermeasures are taken.

The responsibilities are clearly differentiated. The double-checking principle and the use of strict IT authorization concepts are key components of our internal accounting and controlling system.

The financial statements of the Group companies are prepared centrally by our registered office in Unterföhring on the basis of national accounting principles. A uniform account plan is used for this purpose throughout the Group and it is applicable to all companies. After the reconciliation of the separate financial statements to the international accounting standards (HB II), our SAP Finance & Controlling System is used to carry out a system-based consolidation to the consolidated financial statements. This involves application of uniform accounting and valuation principles throughout the Group.

The separate financial statements of the Group companies are – if material or required by law – subject to an external annual audit, and the results of the audit are discussed with the auditors of the financial statements.

4 OUTLOOK REPORT

4.1 Macroeconomic forecast

Moderate growth at a low level is expected for the global economy

In their joint forecast published in the fall of 2019, the most important economic research institutes in German-speaking countries are expecting sustained growth at a low level for the years 2020 and 2021. Stagnation in manufacturing is likely to continue as a result of the anticipated fall in orders booked and growth below the potential production capacity. By contrast, the demand for consumer goods looks set to be robust and be the pillar underpinning growth. The economic institutes are projecting global economic growth amounting to 2.6 % in 2020 and 2.7 % in 2021. Asia is likely to be the key driver for global growth with anticipated growth of 4.5 % in each year. GDP growth of 1.7 % and 1.8 % respectively is expected for the U.S.A.[18]

A number of risks have been identified for global growth. Uncertainties arising from the trade conflict between the U.S.A. and China continue to remain high.

18 IMF, World Economic Outlook 2019, 15 October 2019 https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019; Joint Diagnosis in the fall of 2019 2 October 2019, http://gemeinschaftsdiagnose.de/wp-content/uploads/2019/10/GD_H19_Langfassung_online.pdf

A deteriorating escalation and additional tariffs along with import restrictions would make negative effects on global economic development more probable. As already elucidated in considerable detail at several points, an exit by the United Kingdom from the European Union without an agreement ("disorderly Brexit") would be likely to entail significant economic disruption. The attack on Saudi oil production facilities in 2019 ratcheted up the political risks and tensions in the Middle East and on the Arabian Peninsula. The resulting potential oil-price shocks could exert a negative impact on the fragile global growth.[19]

Eurozone with slower growth and strong demand for consumer goods
Moderate growth rates are anticipated in the EU for the years 2020 and 2021 owing to uncertainties in global trade, the exit of the United Kingdom from the European Union, and weakness in industry with moderate growth rates. A positive impact will be created by the sustained high employment rate, the dynamic upward trajectory for wages and the demand for consumer goods. Economic growth of 1.4 % is expected for 2020 and 1.7 % for 2021.[20]

Weak economic growth expected for Germany
In the opinion of the most important economic research institutes in German-speaking countries, economic growth in Germany will continue to remain weak in 2020. In their expert report published in the fall of 2019, the institutes are projecting a growth rate of 1.1 % for the year 2020. This corresponds to a revision compared with the spring forecast of 0.7 percentage points. Furthermore, the growth rate is overstated by calendar effects. There will be a larger number of working days by comparison with 2019. A modest upswing in economic activity is expected for 2021 and a growth rate of 1.4 % is forecast.

The upswing will continue to be primarily driven by the domestic economy, and in particular private consumption stimulated by rising wages and a policy of giving consumers tax breaks.

The number of people in gainful employment is projected to increase moderately by 120,000 in 2020 and 160,000 in 2021. The unemployment rate is projected to be 5.0 % in 2020 and 4.9 % in 2021.[21]

4.2 Sector-specific forecast

Demand for digital transformation drives growth
Following growth in the consulting market in Germany by 7.3 % to 33.8 billion euros in 2018, the Federal Association of Management Consultants (BDU) is assuming market growth of nearly seven percent.[22]

In a study on management consultancy, Lünendonk projects growth of 10.9 % in the management consulting market for 2020 and 11.1 % for 2021. 71 % of the respondents surveyed in the study are assuming that digitalization in particular is likely to drive the demand for consultancy services.[23]

19 Joint Diagnosis in the fall 2019, 2 October 2019, http://gemeinschaftsdiagnose.de/wp-content/uploads/2019/10/GD_H19_Langfassung_online.pdf
20 Joint Diagnosis in the fall 2019, 2 October 2019, http://gemeinschaftsdiagnose.de/wp-content/uploads/2019/10/GD_H19_Langfassung_online.pdf Table p.16
21 Joint Diagnosis in fall 2019, 2 October 2019, http://gemeinschaftsdiagnose.de/wp-content/uploads/2019/10/GD_H19_Langfassung_online.pdf
22 BDU – Federal Association of Management Consultants, press release dated 14 March 2019; https://www.bdu.de/media/353287/branchenstudie-unternehmensberatung-2019.pdf
23 Lünendonk, Lünendonk Study 2019: After record year in 2018, IT service providers continue to expect double-digit growth increases, 25 September 2010, https://www.luenendonk.de/presseinformation/luenendonk-studie-2019-nach-rekordjahr-2018-erwarten-it-dienstleister-weiterhin-zweistellige-wachstumssteigerungen/

Robust demand for IT consultancy and implementation services
In September 2019, Lünendonk published the study entitled "Demand for IT Consulting and Implementation Services", in which 70 IT companies were surveyed on different topics. The companies represented approximately 63 % of the entire market.

After a record year in 2018 with market growth of 11.9 %, the surveyed companies are also anticipating robust demand for IT consulting and implementation services in 2019 and 2020. As a consequence, growth of 10.6 % in 2019 and 10.8 % in 2020 has been derived from the surveys. Drivers for the growth are integration of digital solutions in backend IT, agile application developments and Cloud Computing implementations. The surveyed companies attribute increased importance to services from a single source and end-to-end implementations.[24]

These results have confirmed the approach adopted by KPS in its strategy of focusing on projects with an end-to-end solution approach.

Increased demand for Cloud Transformation
A further study carried out in October 2019 revealed that 72 % of the IT decision-makers surveyed state that parts of the IT landscape are being transformed into hybrid Cloud solutions. There is also an increased consultancy requirement for the transformation of ERP systems.

Every second respondent in the study stated that they wanted to work together with IT consultants who covered the entire spectrum of IT sourcing consultancy. This indicates that an increasing number of customers are opting for a full-service approach. Once again, the results of this survey confirm that KPS exercised timely anticipation of the market trends by covering the entire value chain.[25]

4.3 Forecast for the KPS Group

The assessment for the business year 2019/2020 is based on the development of past reporting periods, the results of previous months, the consulting portfolio comprising portfolio projects and newly acquired projects, in particular in the KPS focus sectors of retail and the consumer goods industry.

The Executive Board and the management of KPS AG have a positive assessment overall of the situation. KPS is in a good position to address the challenges of the future. In addition, KPS has a very sound financial structure and sound results of operations.

As well as increasing sales, we intend to continue concentrating strategically on optimizing income in the business year 2019/2020.

When making plans for the business year 2019/2020, the Executive Board is assuming stable development of sales.

The Executive Board is anticipating a slight increase in sales to a projected range of 181 – 191 million euros and an increase in EBITDA to 28 – 36 million euros for the current business year 2019/2020. This forecast EBITDA includes a positive

24 Lünendonk, Lünendonk Study 2019: After record year in 2018, IT service providers continue to expect double-digit growth increases, 25 September 2010, https://www.luenendonk.de/presseinformation/luenendonk-studie-2019-nach-rekordjahr-2018-erwarten-it-dienstleister-weiterhin-zweistellige-wachstumssteigerungen/
25 Lünendonk, Lünendonk Study 2019: IT Strategies and Cloud Sourcing in the Course of the Digital Transformation, 23 October 2019, https://www.luenendonk.de/aktuelles/presseinformationen/luenendonk-studie-2019-it-strategien-und-cloud-sourcing-im-zuge-des-digitalen-wandels/

effect amounting to approximately 3.8 million euros arising from the first-time application of leasing reporting in accordance with IFRS 16.

Our forecast is based on factors and projections about future business and economic developments known to us today. Changes that are unforeseeable from today's perspective in the anticipated economic framework conditions, in ongoing projects, in the current order backlog and in other external and internal factors could exert significant negative effects on our sales and earnings forecast so that the projected sales and earnings targets may not be achieved.

5 COMPENSATION REPORT

5.1 Compensation payments to the Executive Board

The compensation is made up of fixed and variable components. A defined annual salary payment is agreed in the form of fixed elements, and these are payable in twelve equal monthly instalments at the end of each month. The variable component is linked with a performance-related bonus payment based on sustainable company development which is calculated over a measurement period totaling three years (the relevant starting year and the two subsequent years). The payout of the bonus depends on the attainment of fixed targets defined in the starting year. For each year of the measurement period, different bandwidths are defined for quantitative and as necessary qualitative criteria, for each of which there is a corresponding bonus or penalty amount. After each of these business years in the relevant measurement period has come to an end, the Member of the Executive Board shall receive an annual advance payment. The amount of this payment depends on the balance of the bonus or penalty amounts that have been achieved up to that date. After the final bonus has been established, the Member of the Executive Board shall repay to the company any difference between the advance payments and the bonus ultimately determined. The fixed and variable compensation paid to the sole Member of the Executive Board for his activity in the business year 2018/2019 amounted to a total of 573 (previous year: 572) KEuros, with the variable share amounting to 42 % (previous year: 42 %) of the total payments.

The Member of the Executive Board is also provided with a vehicle for official and private use. The company has further concluded an accident insurance and a D&O insurance policy for the Member of the Executive Board. The contributions for statutory health insurance made by the Member of the Executive Board are also reimbursed to him and he is entitled to payment of the usual employer's share for statutory pension insurance that is applicable when employing an employee. The expenses for this amounted to 63 (previous year: 59 KEuros) in the business year 2018/2019.

5.2 Compensation payments to Members of the Supervisory Board

A resolution defining the current compensation structure of the Supervisory Board was approved at the Annual General Meeting held on 9 May 2008. According to this structure, each member of the Supervisory Board receives fixed compensation amounting to 15 KEuros in addition to reimbursement of their expenses after the business year has come to an end. The Chairman of the Supervisory Board receives 25 KEuros. The compensation is payable after the Annual General Meeting. In the business year 2018/2019, the compensation for the Supervisory Board amounted to a total of 55 (previous year: 55) KEuros. In the business year 2018/2019, the compensation payments for the Chairman of the Supervisory Board, Mr. Michael Tsifidaris, amounted to 25 (previous year: 25) KEuros, for Mr. Uwe Grünewald 15 (previous year: 15) KEuros and for Mr. Hans-Werner Hartmann 15 (previous year: 15) KEuros.

6 DISCLOSURES RELEVANT TO TAKEOVERS PURSUANT TO ARTICLE 315 SECTION 4 GERMAN COMMERCIAL CODE (HGB) AND THE EXPLANATORY REPORT FOR THE BUSINESS YEAR 2018/2019

6.1 Composition of the subscribed capital

On 30 September 2019, the capital stock of the company amounted to 37,412,100 euros. It is divided up into 37,412,100 no-par value ordinary shares each representing a nominal value of 1 euro in the capital stock. All shares entail the same rights and obligations.

During the course of the business year, none of the company's own shares (treasury shares) were purchased or sold. On 30 September 2019, the company did not hold any treasury shares (previous year: 0).

6.2 Restrictions on voting rights and transfers

The Executive Board is not aware of any agreements between shareholders which could give rise to restrictions on voting rights or restrictions on the transfer of shares. There are no such restrictions arising from statutory legislation or from the statutes of the company, insofar as the regulation defined in Article 44 Section 1 Securities Trading Law (WpHG) is not applicable.

Any breaches of the notification obligations pursuant to Articles 33 Section 1, 38 Section 1 and 39 Section 1 Securities Trading Law (WpHG) can lead to rights arising from shares and also the voting right pursuant to Article 44 Securities Trading Law (WpHG) being suspended at least temporarily. We are not aware of any contractual restrictions of the voting rights.

6.3 Capital shares greater than 10 percent

Direct or indirect shareholdings in the capital of the company which exceed 10 % of the voting rights were held as follows according to the knowledge of the Executive Board as at 30 September 2019:

	shares	in %
Michael Tsifidaris	9,080,050	24.27 %
Dietmar Müller	4,162,486	11.13 %
Leonardo Musso	4,103,084	10.97 %
Uwe Grünewald	4,052,390	10.83 %

In the business year 2018/2019, KPS AG did not receive any further notifications relating to direct or indirect shareholdings which exceed 10 % of the voting rights. Additionally, the company has not therefore received any notification apart from the above list providing information about a shareholding above 10 % of the voting rights.

6.4 Special rights which confer rights of control

There are no shares in the company with special rights which confer rights of control.

6.5 Control of voting rights through employee shareholders

Employees who hold shares in the capital of KPS AG exercise their control rights like other shareholders indirectly pursuant to the statutory regulations and the statutes of the company.

6.6 Appointment and dismissal of members of the Executive Board and amendments to the statutes of the company

The Members of the Executive Board are appointed and dismissed pursuant to Article 84 Stock Corporation Law (AktG) in conjunction with Article 7 of the statutes of the company. The Supervisory Board is responsible for this. Appointments are made in each case for a period of office lasting a maximum of five years. A reappointment or extension of the period of office, in each case for a maximum of five years, is permissible, although the resolution may be passed at the earliest one year prior to the expiry of the period of office.

Amendments to the statutes of the company require a resolution by the Annual General Meeting pursuant to Article 179 Section 1 Stock Corporation Law (AktG) which, unless the statutes of the company make provision for some other majority, require a majority of three-quarters of the capital stock represented when the vote is taken pursuant to Article 179 Section 2 Stock Corporation Law (AktG).

6.7 Powers of the Executive Board regarding the issue or buyback of shares

The Executive Board has powers granted under statutory regulations and the statutes of the company which essentially govern the powers for the management of the company under its own responsibility and its external representation outside the company.

The authorization for creation of authorized capital 2014/1 approved by the Annual General Meeting on 28 March 2014 was cancelled by resolution of the ordinary General Meeting held on 7 April 2017. Instead, authorized capital 2017/1 was created in the amount of 18,706,050.00 euros.

As a result of this resolution, the Executive Board is empowered with the consent of the Supervisory Board to increase the capital stock up until 6 April 2022 once or more than once up to a total of 18,706,050.00 euros against cash and/or non-cash contributions by the issue of new registered ordinary shares with no par value (no-par shares), subject to the possible exclusion of shareholders' pre-emptive rights.

There was no change in the authorized capital 2017/I during the business year 2018/2019.

KPS AG was authorized by a resolution passed by the ordinary Annual General Meeting on 27 March 2015 to acquire its own shares until 26 March 2020 (inclusive) up to a total of 10 % of the capital stock on the date of the adoption of the resolution or – if this value is less – on the date of the authorization to exercise this right. The authorization can be exercised by the company in whole or in parts, once or more than once, in pursuit of any purpose permissible under statutory regulations. The acquisition of shares by KPS AG can be executed as a purchase on the stock exchange, by means of a public offer to purchase made to all shareholders and/or by issue of a call for bids. Acquired own shares may be disposed of again without the need for a further resolution to be passed by the Annual General Meeting, or can be used to meet or discharge purchase obligations or purchase rights to shares in KPS AG. The pre-emptive rights of shareholders to acquire own shares are excluded in the case of certain authorizations of use in accordance with the resolution passed by the Annual General Meeting or can be excluded by the Executive Board in the cases specifically designated in the resolution of the Annual General Meeting. On the balance sheet date 30 September 2019, the company did not hold any treasury shares (previous year: 0).

6.8 Important agreements subject to a change of control following a takeover offer

If there is a change in control resulting from a takeover offer, the sole Member of the Executive Board will receive a severance payment amounting to 75 % of the current annual gross income on the date of the contract termination if he exercises the contractually agreed special right to serve notice of termination. A change of control is deemed to exist if one or more than one shareholder acting together, who alone or together do not currently hold a majority of the shares in the company, alone or together acquire more than 50 % of the voting rights in the company, or the company becomes a dependent company by concluding a company agreement pursuant to Article 291 Section 1 Stock Corporation Act (AktG). The same shall apply if the company merges with another enterprise. In this case, the Vice Presidents were granted a special right to serve notice of termination.

7 LEGAL DISCLOSURES

7.1 Declaration on Corporate Governance pursuant to Articles 315d, 289f German Commercial Code (HGB)

The Declaration on Corporate Governance pursuant to Articles 315d, 289f German Commercial Code (HGB) is publicly accessible under: https://www.kps.com/en/investor-relations/corporate-governance.html.

7.2 Compliance Declaration "Declaration by the Executive Board and the Supervisory Board of KPS AG on the recommendations of the "Government Committee on the German Corporate Governance Code"

The Executive Board and the Supervisory Board of KPS AG submitted the declaration required pursuant to Article 161 of the Stock Corporation Law and published the declaration on the website of the company at https://www.kps.com/en/investor-relations/corporate-governance.html on 17 January 2019.

7.3 Disclosures on the Non-financial Declaration in accordance with Articles 315b, 315c in conjunction with 289b to 289e German Commercial Code (HGB)

KPS AG has published the activities of the KPS Group in the area of sustainability in a Non-financial Report. The Non-financial Group Report is available here https://www.kps.com/de/investor-relations/financial-publications.html.

Unterföhring, 23 January 2020

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KPS GROUP
BUSINESS FIGURES

KPS AG Consolidated Financial Statements in accordance with IFRS

INCOME STATEMENT
1 October 2018 to 30 September 2019

in KEuros		Note	2018/2019	2017/2018
1	Revenues	6.1	180,656	172,223
2	Own work capitalized	6.2	2,449	2,832
3	Other operating income	6.3	615	3,233
4	Cost of materials	6.4	-62,678	-68,489
5	Personnel expenses	6.5	-66,410	-62,187
6	Other operating expenses	6.6	-32,082	-27,589
7	**Operating result before depreciation and amortization (EBITDA)**		22,550	20,023
8	Depreciation and amortization (M&A adjusted*)	6.7	-1,414	-849
9	**Operating result (EBIT) adjusted***		21,136	19,174
10	Depreciation and amortization (contingent on M&A)	6.7	-2,333	-2,581
11	**Operating result (EBIT)**		18,803	16,593
12	Financial income	6.8	77	13
13	Financial expenses	6.8	-953	-1,339
14	**Financial result**		-876	-1,326
15	**Income before income taxes****		17,927	15,267
16	Income tax	6.9	-5,735	-5,436
17	**Earnings after income taxes**		12,192	9,831
	Number of shares in thousands – basic/diluted weighted average		37,412	37,371
in euros				
	Earnings per share			
	– basic	6.10	0.33	0.26
	– undiluted	6.10	0.33	0.26

* adjusted by depreciation and amortization on the assets disclosed as part of company mergers and on the acquired customer relationships (contingent on M&A)
** corresponds to earnings from ordinary activities

KPS AG Consolidated Financial Statements in accordance with IFRS

COMPREHENSIVE INCOME STATEMENT
for the period from 1 October 2018 to 30 September 2019

in KEuros	Note	2018/2019	2017/2018
Earnings after income taxes	6.11	12,192	9,831
Actuarial gains and losses arising from defined benefit pension commitments and similar obligations	6.11	45	169
Foreign currency translation adjustment for foreign subsidiary companies	6.11	18	51
Comprehensive income		12,255	10,051

INDICATORS FOR THE INCOME STATEMENT

in million euros	2018/2019	2017/2018
Revenues	180.7	172.2
EBITDA	22.6	20.0
EBITDA margin	12.5 %	11.6 %
EBIT	18.8	16.6
EBIT margin	10.4 %	9.6 %

KPS AG Consolidated Financial Statements in accordance with IFRS

GROUP BALANCE SHEET
as at 30 September 2019

ASSETS

in KEuros		Note	30.09.2019	30.09.2018
ASSETS				
A.	**NON-CURRENT ASSETS**			
I.	Property, plant and equipment	7.1	1,653	1,023
II.	Goodwill	7.2	62,546	62,546
III.	Other intangible assets	7.2	15,677	16,190
IV.	Deferred tax assets	7.3	4,777	5,488
			84,653	85,247
B.	**CURRENT ASSETS**			
I.	Future receivables from production orders	7.4	0	2,282
II.	Contractual assets	7.4	4,100	0
III.	Trade receivables	7.5	40,740	41,667
IV.	Other receivables and financial assets	7.6	1,889	1,342
V.	Entitlements to income tax rebates	7.7	1,022	245
VI.	Cash and cash equivalents	7.8	9,855	9,084
			57,606	54,620
	Total assets		142,259	139,867

LIABILITIES AND SHAREHOLDERS' EQUITY

in KEuros		Note	30.09.2019	30.09.2018
A.	**SHAREHOLDERS' EQUITY**			
	Share in equity attributable to shareholders of KPS AG			
I.	Subscribed capital	7.9.1	37,412	37,412
II.	Capital reserve	7.9.3	-10,222	-10,222
III.	Retained earnings	7.9.4	663	663
IV.	Other comprehensive income	7.9.5	-364	-427
V.	Group net profit	7.9.6	36,752	37,654
	Total equity		64,241	65,080
LIABILITIES				
B.	**NON-CURRENT LIABILITIES**			
I.	Non-current provisions	7.10	3,653	3,094
II.	Other non-current liabilities	7.10.1	10,155	10,252
III.	Non-current financial liabilities	7.10.2	8,600	12,400
IV.	Deferred tax liabilities	7.11	1,669	2,214
			24,077	27,960
C.	**CURRENT LIABILITIES**			
I.	Trade liabilities	7.12	10,523	10,911
II.	Financial liabilities	7.13	8,805	8,800
III.	Advance payments received	7.4	0	2,081
IV.	Contractual liabilities	7.4	174	0
V.	Other provisions	7.14	11,854	9,694
VI.	Other liabilities	7.15	17,197	12,534
VII.	Income tax liabilities	7.16	5,388	2,807
			53,941	46,827
	Total liabilities		78,018	74,787
	Total shareholders' equity and liabilities		142,259	139,867
	Equity ratio		45.2 %	46.5 %

KPS AG Consolidated Financial Statements in accordance with IFRS

CONSOLIDATED CASH FLOW STATEMENT IN ACCORDANCE WITH IFRS
for the period from 1 October 2018 to 30 September 2019

in KEuros	2018/2019	2017/2018 restated	2017/2018
A. Current business operations			
Earnings before interest and income taxes (EBIT)	18,803	16,593	16,593
Depreciation of fixed assets	3,747	3,430	3,430
Change in current assets	-2,083	3,519	3,519
Change in provisions	2,160	-4,927	-4,927
Other non-cash expenses and income	6,043	949	949
Changes in other liabilities	-925	2,409	2,409
Losses from asset disposals	27	0	0
Taxes paid	-3,819	-4,154	-4,154
Interest received	26	28	28
Cash inflow/outflow from business operations	23,979	17,847	17,847
B. Investment activities			
Investments in property, plant and equipment	-708	-56	-56
Investments in intangible assets	-2,693	-3,364	-3,364
Investments in acquisition of getit GmbH	0	-448	-448
Investments in acquisition of ICE	-1,984	-10,354	-10,354
Investments in acquisition of Infront	0	-4,643	-4,643
Investments in acquisition of Envoy	-563	-6,017	-6,017
Cash receipts from sale of assets	0	0	0
Cash inflow/outflow from investment activities	-5,948	-24,882	-24,882
C. Financial activities			
Interest paid	-366	-315	-315
Cash receipts from taking out loans	0	25,000	20,000
Payments for the settlement of loans	-3,800	-3,800	-3,800
Dividend payouts	-13,094	-13,094	-13,094
Cash inflow/outflow from financial activities	-17,260	7,791	2,791
D. Net change in cash funds	**771**	**756**	**-4,244**
E. Cash funds at the beginning of the period	**9,084**	**6,665**	**6,665**
F. Consolidation-related change in cash funds	**0**	**1,663**	**1,663**
G. Cash funds at the end of the period	**9,855**	**9,084**	**4,084**

COMPOSITION OF CASH FUNDS	Balance 30.09.2019	Balance 30.09.2018 restated	Balance 30.09.2018
in KEuros			
Cash in hand and bank balances	9,855	9,084	4,084
Cash funds	9,855	9,084	4,084

KPS Consolidated Financial Statements in accordance with IFRS

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT KPS – IFRS

in KEuros	Subscribed capital	Treasury shares	Total subscribed capital	Capital reserve	Accumulated other equity: Retained earnings OCI	Accumulated other equity: Currency translation differences	Accumulated other equity: Pension commitments	Group net profit	Equity
30.09.2017	37,412	-121	37,291	-11,595	663	0	-647	40,476	66,188
Disposal of treasury shares	0	121	121	1,373	0	0	0	441	1,935
Equity transactions with shareholders									
Dividend payout	0	0	0	0	0	0	0	-13,094	-13,094
Changes recorded with no effect on income	0	0	0	0	0	51	169	0	220
Group earnings	0	0	0	0	0	0	0	9,831	9,831
30.09.2018	37,412	0	37,412	-10,222	663	51	-478	37,654	65,080
Disposal of treasury shares	0	0	0	0	0	0	0	0	0
Equity transactions with shareholders									
Dividend payout	0	0	0	0	0	0	0	-13,094	-13,094
Changes recorded with no effect on income	0	0	0	0	0	18	45	0	63
Group earnings	0	0	0	0	0	0	0	12,192	12,192
30.09.2019	37,412	0	37,412	-10,222	663	69	-433	36,752	64,241

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KPS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The consolidated financial statements of KPS AG for the period to 30 September 2019 were prepared in accordance with the regulations of the International Financial Reporting Standards (IFRS) valid on the balance sheet date and endorsed by the European Union as issued by the international Accounting Standards Board (IASB), London, the interpretations of the IFRS Interpretations Committee (IFRIC) and observing the additional applicable commercial regulations established in Article 315e German Commercial Code (HGB) and the company statutes of KPS AG.

KPS AG is a joint-stock company (Aktiengesellschaft) based in Germany with registered office in Beta Straße 10h, 85774 Unterföhring, Germany. The company with register number HRB 123013 is registered with the Munich Local Court (Amtsgericht München).

KPS AG was established in 1998. The shares in KPS AG were authorized for regulated trading in the New Market on 15 July 1999. In 2002, the company switched to the stock-exchange segment "Regulated Market" (General Standard), the company was listed in the Prime Standard in December 2016.

KPS AG is a successful company for business transformation consulting and process optimization in retail and in the consumer goods sector. We provide our customers with advice on strategic, process and technological issues, and successfully implement holistic solutions which safeguard their performance capability over the long term.

The Declaration on the German Corporate Governance Code prescribed pursuant to Article 161 of the Stock Corporation Law (AktG) has been submitted and made accessible to shareholders

The Executive Board of KPS AG prepared the consolidated financial statements on 23 January 2020 and submitted them to the Supervisory Board, which passed a resolution on them on 23 January 2020.

Individual items are summarized to improve clarity in the income statement and the statement of comprehensive income, the balance sheet and in the cash flow statement, and in the statement of changes in equity of the KPS Group. Explanations are provided in the notes to the financial statements.

The income statement has been prepared in accordance with the total cost method.

The balance sheet is broken down, in accordance with IAS 1, into current and non-current assets and liabilities. Current assets are classified as liquid funds, assets and liabilities if they are expected to be realized or are to be settled within one year or also within the normal operating cycle of the company or group – starting with the procurement of the resources necessary for the provision of performance process until receipt of cash or cash equivalents by way of consideration for the sale of the products or services generated in this process. Trade receivables and trade payables, and inventories are generally posted as current items. Deferred tax assets and liabilities are generally shown as non-current.

The consolidated financial statements are prepared in euros. Unless otherwise noted, all amounts are given in thousand euros (KEuros). Roundings may lead to values in this report not adding up exactly to the specified sum, and percentages given may not conform precisely to the values presented. Alongside the values for the business year 2018/2019, the equivalent year-earlier figures are given for purposes of comparison. These are presented in brackets

The presentation is unchanged by comparison with the previous year.

The separate financial statements of the consolidated companies were prepared on the balance sheet date of the consolidated financial statements.

2 EFFECTS OF NEW ACCOUNTING STANDARDS

2.1 First-time application of IFRS standards

Compared with the consolidated financial statements as at 30 September 2018, the following standards and interpretations were applied mandatorily for the first time, which exerted a material influence on the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces IAS 11, Construction Contracts, and IAS 18, Revenues, and the associated interpretations. The standard should be applied for the first time to business years which begin on or after 1 January 2018. The object of the standard is in particular to unify the previous regulations in IFRS on the one hand and the very detailed and partly industry-specific regulations defined under US GAAP on the other hand, and thereby to improve the transparency and comparability of financial information. Under IFRS 15, revenues have to be realized when the customer receives power of disposal over the agreed goods and services and can gain the benefit of usage from them. The key factor is no longer the transfer of material opportunities and risks, as used to be the case under the old rules of IAS 18, Revenues.

On first-time application of IFRS 15, KPS has to apply the standard in entirety for the current reporting period. This also includes the retroactive application to all the contracts that had not yet been fulfilled at the beginning of the reporting period. Two options are granted in the transitional regulations with respect to earlier reporting periods:

1. complete application of IFRS 15 to earlier reporting periods (with specified limited practical simplifications); or
2. retention of the earlier amounts which were reported in accordance with the previously applicable standards, and recording of the accumulated effects arising from the application of IFRS 15 as an adjustment of the initial balance of the equity capital on the date of first-time application (beginning of the current reporting period).

KPS selected the 2nd option. The accumulated conversion effect resulting from the first-time application is recorded directly in retained earnings at the beginning of the comparative period on 1 October 2018. Comparative figures from previous reporting years are not adjusted. Since the date of first-time application, KPS has only reported those contracts in accordance with the new regulations, which had not yet ended before the date of first-time application in accordance with the accounting principles applicable at the time. KPS carried out a group-specific analysis of the theoretical principles and requirements and drew up an evaluation of all types of contract.

As a result of this impact analysis, it emerged that IFRS 15 did not require any identification of performance obligations which were not already performance obligations in accordance with the applicable rules, to which revenues are allocated within the framework of a multi-component transaction.

At the same time, no performance obligations were identified in accordance with the applicable regulations, which were not also performance obligations in accordance with IFRS 15.

When measuring the progress of performance, KPS generally applies input-oriented procedures because the resources required to fulfil the performance obligation reflect the progress of performance of the service that has been provided so far. If KPS has a claim to a consideration from the customer in customer contracts, which corresponds directly with the value of the goods or services provided by the company, the sales are recorded to the value of the amount which the company is permitted to invoice.

KPS does not expect financing components as part of the transaction price and contract costs.

On the basis of this analysis, KPS did not experience any effect from the conversion to IFRS 15 by 1 October 2018, which would have had to be recorded in retained earnings. On 1 October 2018, conversion to IFRS 15 gave rise to a change in recognition for the following balance sheet items:

in KEuros	30.09.2019	Conversion-effect	01.10.2018
ASSETS			
Receivables from production orders	2,282	-2,282	0
Contractual assets	0	395	395
Non-current assets	**2,282**	**-1,887**	**395**
LIABILITIES			
Advance payments received	2,081	-2.081	0
Contractual liabilities	0	194	194
Current liabilities	**2,081**	**-1,887**	**194**
Balance sheet total	139,867	-1,887	137,980

IFRS 9 Financial Instruments

In July 2014, the IASB published the final version of IFRS 9, Financial Instruments, which replaces all previous versions and hence brings to completion the project to replace IAS 39, Financial Instruments. IFRS 9 introduces a uniform approach to classification and valuation of financial assets. Furthermore, the standards provide for a new impairment model, which is based on the expected credit defaults. IFRS 9 also includes new rules for the application of hedge accounting. The standard gives a right to choose an accounting option for the first-time application of IFRS 9, according to which the hedging relationships are either reported in accordance with the regulations of IFRS 9 or they continue to be reported on the basis of IAS 39. On 1 October 2018, IFRS 9 (Financial Instruments) was applied for the first time. The earnings effects arising from first-time application of IFRS 9 are of subordinate importance. This low earnings effect is based on the historically low default rates from trade receivables. In addition, the trade receivables and other receivables do not include any significant financing portion.

Reconciliation of financial assets in accordance with IAS 9 and IFRS 9

As at 1 October 2018, the reclassification yielded the following effects:

Valuation category IAS 39	Book value 30.09.18	Reclassifi-cation	Effect from change of the valuation category	Effect on the impairment model	Book value 01.10.18	Valuation category (IFRS 9)
Cash and cash equivalents	9,084	0	0	0	9,084	Financial assets valued at cost
Receivables	43,009	0	0	0	43,009	
of which:						
Trade receivables	41,667	0	0	0	41.667	Financial assets valued at cost
Other receivables and financial assets	1,342	0	0	0	1,342	Financial assets valued at cost

No effects have emerged for the financial liabilities.

In addition, the following standards and interpretations had to be mandatorily applied by contrast with the consolidated financial statements as at 30 September 2018, but they exerted no material effect on the consolidated financial statements:

- Amendments to IAS 40: Investment Property
- Amendments to IFRS 2: Share-based Payments
- Amendments to IFRS 4: Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Clarifications for IFRS 15: Revenues from Contracts with Customers
- Annual improvements of IFRS – Cycle 2014-2016
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

2.2 IFRS Standards not applied

IFRS 16 was published in January 2016 by IASB and replaces IAS 17 and IFRIC 4. IFRS 16 discontinues the previous classification of leasing agreements on the lessee side into operating and finance leases. Instead, IFRS 16 introduces a uniform valuation model. This requires lessees to recognize assets for right of use and leasing liabilities for leasing agreements with a term of more than twelve months. This means that leasing agreements not previously reported – largely comparable with the reporting today of finance leases – will have to be reported in balance sheets in future. The lessee will have to record a leasing liability in the balance sheet for all leasing agreements in respect of the obligation to pay future leasing payments. At the same time, the lessee will record an underlying value for the right of use as an asset, which corresponds to the cash value of the future leasing payments plus directly attributable expenses. Similar to the guidelines on Finance Leases in IAS 17, the leasing liability is adjusted over the lifetime of the lease for each revaluation, while the claim to the right of use is written down. In contrast to the current leasing expenses, this results in higher expenses at the time when the contract is concluded.

During the course of a contractual analysis, the total scope of the contracts to be valued in accordance with IFRS 16 were clustered on the basis of the type of contract and allocated on the basis of the contractual term. The following types of contract were identified and valued:

- Rental agreements for office premises and car parking places
- Hire contracts for passenger cars
- Rental contracts for hardware and software

KPS makes use of the application simplifications for low-value leasing objects and short-term leases (less than twelve months).

In 2018/2019, KPS has to carry out a detailed impact assessment for IFRS 16. Since the modified retrospective method is applied, no effects will result for shareholders' equity. In summary, the effects of the application of IFRS 16 can be summarized as follows:

in KEuros	01.10.2019
ASSETS	
Property, plant and equipment	25,062
NON-CURRENT ASSETS	25,062
LIABILITIES	
Leasing liabilities	25,062
NON-CURRENT LIABILITIES	25,062
INCOME STATEMENT 2019/2020	
Depreciation expense	-3,878
Operating leasing costs	3,966
Operating result	88
Financing costs	-138
Net loss for the year	-50

- During the first three years, the changeover will lead to a negative effect on Group earnings of approximately some 160 KEuros.
- As a result of the application of IFRS 16, the repayment portion of the leasing payments is to be recorded in the cash flow statement under cash flow from financial activities, while the interest payments will be recognized under cash flow from current business activities. The cash flow from current business activities will improve over the next three years by 9,391 KEuros. At the same time, the cash flow from current business activities will be negatively impacted by 9,097 KEuros over the next three years as a result of the depreciation on the rights of use.
- Owing to recording the leasing assets and the corresponding liabilities, the balance sheet total will increase.

The cash value of the leasing liability as at 1 October 2019 is measured as follows:

in KEuros	01.10.2019
Gross leasing liability	25,978
Discount	-916
Leasing liability as at 01.10.2019	25,062

The other published standards not yet endorsed by the EU are not likely to exert any substantial effects on the financial position, results of operations, and asset position of the Group.

3 PRINCIPLES AND METHODS, AND UNCERTAINTIES ON ACCOUNT OF ESTIMATE

The annual financial statements of the companies included in the consolidated financial statements are prepared on the basis of uniform accounting and valuation principles. The consolidated financial statements are based on the principle of historic acquisition and production costs with the exception of items which are posted at fair value, such as derivatives and contingent purchase price obligations.

The management has to make certain assumptions and assessments in the consolidated financial statements which may exert a significant influence on the presentation of the net assets, financial position and results of operations of the Group.

The main areas of application for assumptions, estimates and discretionary decisions relate to definition of the useful life of long-term assets, the determination of stages of completion for work in progress, the determination of discounted cash flows in impairment tests (value in use), and conditional purchase price obligations, as well as purchase price allocation (fair value), and the formation of provisions. Accounting principles that require significant assessments and assumptions are addressed on a case-by-case basis in the other parts of this section together with their effects on the individual areas. Estimates are based on experiential values and other assumptions, which are regarded as appropriate under the specific circumstances. They are continually reviewed but may deviate from the actual values.

Acquired businesses are accounted for based on the acquisition method, which requires that a valuation is carried out of the assets acquired and the liabilities assumed at their respective fair values on the date of the acquisition.

The application of the acquisition method requires certain estimates and assessments, primarily in relation to the fair value of the acquired intangible assets and property, plant and equipment, the liabilities assumed at the date of acquisition, and the useful lives of the acquired intangible assets and property, plant and equipment. If intangible assets are identified, the fair value is either determined by independent expert reports depending on the type of intangible assets and the complexity, or the fair value is determined internally using an appropriate valuation method generally based on the forecast of the future cash flows anticipated overall. The valuations are based on the assumptions made by the management in relation to the future development in value of the individual assets and the assumed changes in the discount rate applied.

Any estimates carried out in the context of the purchase price allocation can significantly influence the future Group earnings.

The provision for bonus payments to the Vice Presidents of KPS was determined on the premises that the entitled persons remain in the company until the bonuses are paid. If one or more of the Vice Presidents leave the company prematurely, parts of the provision would have to be released.

Amendments to the accounting and valuation methods on the basis of revised and new standards are carried out retrospectively, insofar as no deviating regulation is provided for a standard. The income statement of the previous year and the opening balance of this comparative period are adjusted as though the new accounting and valuation methods had always been applied.

3.1 Consolidation

The consolidated financial statements are based on the annual financial statements of the consolidated companies prepared on 30 September 2019 in accordance with the accounting and valuation principles applied uniformly across the Group. The annual financial statements have been audited and approved or they were subject to an audit review in the course of the audit of the consolidated financial statements.

The consolidated financial statements include subsidiary companies. There were no joint ventures and associated companies in the business year or in the previous year.

Subsidiary companies are those companies over which KPS AG is able to exercise control. This is generally based on indirect or direct majority voting rights held by KPS AG. The majority voting rights are generally manifested in the form of share ownership of more than 50 %. Inclusion in the consolidated group commences on the date from which the possibility of control commenced. Consolidation ends when control is no long possible.

Sales, income and expenses, and profits and losses, which are based on transactions within the group of consolidated companies, and any receivables and liabilities are eliminated. There were no interim profits in inventories from intragroup deliveries and services requiring consolidation. The interim profits were consolidated in fixed assets.

Investment book values in subsidiary companies are offset with the proportionate share of the equity capital in these subsidiary companies in the course of capital consolidation. If a company is acquired, the proportionate equity capital of the acquired subsidiary company is calculated in accordance with the acquisition method on the date of acquisition taking into account the fair value of identifiable assets, liabilities and contingent liabilities, deferred taxes and any goodwill on that date. The acquisition costs of acquired foreign companies are converted to euros at the relevant rate on the date of acquisition.

Capital consolidation was carried out for acquisitions after 1 October 2003 on the basis of the acquisition method in accordance with IFRS 3. The acquisition costs are equivalent to the fair value of the acquired assets, the equity instruments issued and the liabilities arising or transferred on the date of exchange. If a company merger takes place, identifiable assets, liabilities and contingent liabilities are valued at their fair value on the date of acquisition when they are first consolidated. The surplus on the acquisition costs over the share of the Group in the net fair value of the assets is recognized as goodwill. Goodwill is reviewed each year for any indicators of impairment on value and unscheduled depreciation is carried out as necessary.

The consolidation methods applied were not changed by comparison with the previous year.

3.2 Currency translation

The functional currency and the reporting currency of KPS AG is the euro. Foreign currency transactions are recorded in euros on the transaction date at the exchange rate applicable on this date. Assets and liabilities denominated in foreign currency are in each case converted using the exchange rate on the balance sheet date. The conversion differences arising are reported in the income statement.

The annual financial statements of fully consolidated subsidiaries, whose functional currency is not the euro, are converted on the basis of their functional currency, which generally corresponds to the national currency, into the euro as the Group reporting currency. The conversion is carried out in accordance with the modified balance sheet date method, i.e. the conversion of the items of assets and liabilities is carried out at the rate on the balance sheet date, the conversion in the income statement is transacted at the annual average rate. The annual average rate is calculated from the monthly average rates. Equity components are converted at historic rates on the dates of their relevant additions from the perspective of the Group. The currency translation difference resulting from the conversion is recognized in the accumulated other earnings of equity not affecting profit or loss. The currency translation differences recognized in equity are released when a Group company leaves the consolidated group of companies.

The exchange rates of important currencies with the euro changed as follows:

		Average rate on the balance sheet date		Average annual rate	
		30.09.19	**30.09.18**	**2018/2019**	**2017/2018**
Denmark	DKK	7.4662	7.4564	7.4638	7.4484
Switzerland	CHF	1.0847	1.1316	1.1226	1.1614
United Kingdom	GBP	0.8857	0.8873	0.8843	0.8849
USA	US-$	1.0889	1.1576	1.1281	1.1900

Source: Zeitreihen Deutsche Bundesbank

There were no subsidiaries whose functional currency has exceeded an aggregate inflation rate of 100 % over the past three years and therefore had to apply regulations on hyperinflationary accounting in accordance with IAS 29 Financial Reporting in Hyperinflationary Economies during the year under review.

3.3 Revenue recognition

The revenues include the provision of services and the sale of software and hardware.

Revenues from the sale of software and hardware should be recorded when the power of disposal over the corresponding goods is transferred to the customer. This is generally when the software and hardware is transferred to the customer. When software and hardware is sold there are generally performance obligations which have to be fulfilled at a specific time. In this respect, there are no significant differences by comparison with former reporting in accordance with IAS 18. A fixed consideration is generally agreed and does not include any variable components. Significant financing components are not generally included in contracts. The customer is usually charged when the revenue is recorded. As a rule, invoices are payable within up to 30 days.

Revenues from service contracts should be recorded for the relevant period because the units provided cannot be used by the company in any other way and the company has a payment entitlement for the goods or services provided so far. The revenues are recorded on the basis of input-based methods for measurement of the progress of performance, according to which the sales are realized on the basis of the costs incurred or the resources consumed as a proportion of the expected input for the total service obligation to be fulfilled. The customer is usually charged when the revenue is recorded. As a rule, invoices are payable within up to 30 days.

Framework contracts are concluded with customers without the obligation of a fixed minimum sales volume.

There were no contract initiation costs in accordance with IFRS 15.91 such as commissions on sales which the company would not have incurred without the conclusion of a contract with a customer in the business year 2018/2019.

Income is recorded in the amount for which considerations are expected in relation to the performance obligations assumed, i.e. the transfer of goods or the provision of services. This core principle is implemented with a five-stage framework model:

1. Identification of the contract with a customer,
2. Identification of the independent performance obligations in the contract,
3. Determination of the transaction price,
4. Allocation of the transaction price to the performance obligations,
5. Recording revenues for fulfilment of performance obligations.

Identification of the contract with a customer
A contract is deemed to exist when an agreement between two or more parties forms the basis for enforceable rights and obligations.

Identification of the independent performance obligations in the contract
As soon as KPS has determined the contract with a customer, the contractual conditions and the standard business practices are checked in order to identify all the promised goods or services in the contract, and to determine which of the promised goods or services are to be treated as a standalone performance obligation. Goods or services should be defined as standalone if the customer can derive a use from the promised goods or services directly or in conjunction with third parties, out of the resources available to the customer and the promised goods and services are separable from other goods or services pertaining to the same contract.

Determination of the transaction price
The total transaction price for a contract is initially established and then allocated to the individual performance obligations. The transaction price is the amount to which KPS is entitled to expect as a consideration in exchange for the transfer of goods or services. The amount of the consideration must take into account the effects of variable remunerations, significant financing components, non-cash effective considerations, and considerations payable to the customer. However, KPS has not identified any significant variable remunerations. KPS AG refrains from reducing its promised considerations by a financial component if the term of payment is maximally one year. If the term of payment exceeds one year, the revenues are adjusted by discount to fair value.

Allocation of the transaction price to the performance obligations
The transaction price is allocated to each performance obligation in the amount which represents the amount of the consideration to which KPS is likely to be entitled. The regulations for allocating the transaction price should not be applied if the contract only comprises a single performance obligation. The transaction price is allocated to each performance obligation on the basis of a relative individual sale.

Recording revenues for fulfilment of the performance obligations
The revenue is recorded once the performance obligation has been fulfilled as a result of transfer of promised goods or services to a customer. An asset is deemed to have been transferred when the customer has received the power of disposal over the asset.

The power of disposal over goods or services is transferred over a specified period of time, thereby fulfils a performance obligation and records the revenue over a specified period of time if one of the following criteria is fulfilled:

a. the customer receives the benefit from the service provided by the company and the customer at the same time uses the service while this is being provided;
b. an asset is created or improved through the service provided by the company and the customer acquires the power of disposition over the asset while this is being created or improved; or
c. an asset is created as a result of the service provided by the company which does not have any alternative options for use by the company, and KPS has a legal entitlement to payment for the services that have already been provided.

If the performance obligation is accordingly not fulfilled over a specified period of time, the performance obligation is fulfilled at a specific time when the customer receives the power of disposition over the asset.

Sale of goods and products
The revenues are recognized at the fair value of the consideration received or to be received without deduction of sales tax and other taxes, and after deduction of rebate reductions and discounts granted. Sales of goods are recorded when the significant risks and opportunities arising from the ownership of the goods are transferred to the customer, neither rights of disposal nor an effective power of disposal are retained, the level of the revenues can be reliably determined and the costs incurred or still to be incurred in conjunction with the sale can be reliably determined.

Service contract
Income from the provision of services is recorded in accordance with the level of completion if the earnings from a service contract can be reliably assessed. If the earnings from a service contract can be reliably assessed, the order revenues and the order costs should be recorded in association with this service contract and in accordance with the progress of the performance on the balance sheet date in each case as a portion of the order costs incurred for the work carried out in proportion to the expected order costs. Any changes to the contractual work, the claims, and the performance bonuses are included to the extent that

they were agreed with the customer. If the earnings from a service contract cannot be reliably determined, the order revenues should only be recorded in the amount of the incurred order costs which are likely to be recoverable. Order costs are recorded as an expense in the period in which they arise. If it is likely that the overall order costs will exceed the total order revenues, the expected loss is immediately recorded as expense. An expected loss from a service contract should be recorded as expense as soon as this loss appears probable.

License agreements
Income is recorded appropriate to the period in accordance with the conditions pertaining in the underlying contract. License revenues from the granting of time-limited and time-unlimited licenses are recorded when the software was provided in accordance with the contract. License revenues derived from the granting of time-limited and time-unlimited licenses are charged after the transfer of the power of authority.

License revenues for software updating and support are realized pro rata over the period of the provision of the service. Fees for rights of use based on time are recorded linearly over the period of the agreement. License revenues for software updating and support are charged annually or quarterly in advance.

3.4 Research and development expenses

Research expenses are defined for accounting purposes as costs in connection with current or planned investigations which are intended to provide new scientific or technical knowledge and insights. Development expenses are defined as costs in connection with the application of research results or specialist knowledge in product development, production procedures, services or goods prior to the commencement of commercial production or application.

No research costs were incurred at the KPS Group during the course of the business year.

During the course of the business year, development costs which meet the criteria defined in IAS 38.57 were capitalized in the amount of 2,449 (previous year: 2,832) KEuros. Development costs are recognized with the manufacturing costs. The developments capitalized in the business year had only been partly produced on the balance sheet date, the amortization booked for the business year amounted to 729 (previous year: 363) KEuros.

Scheduled amortization on development costs is carried out over the expected useful life in accordance with the straightline method. At the end of the business year, a review of the useful life and the amortization method is carried out. In the business year, the useful life of the capitalized development costs is assumed to be ten years.

3.5 Goodwill

Goodwill is recognized in the course of a company merger as an asset on the date of acquisition. It is valued at acquisition costs which are derived as the surplus on the purchase price for the acquired company over the share of the net assets acquired. The net assets are equivalent to the balance from the fair value of the acquired identifiable assets, the acquired liabilities and contingent liabilities.

Goodwill does not undergo scheduled amortization, but is tested for impairment every year. Details of the annual impairment tests are explained in the section on the method and effects of impairment tests. Once goodwill has been written down, it cannot be written up in subsequent periods.

3.6 Other intangible assets

An Other intangible asset is an identifiable, non-monetary asset without physical substance (e.g. a patent, a brand, a marketing right) which is not goodwill. It is capitalized as an asset in accordance with IAS 38 if the economic benefit to be expected in the future from the asset is likely to accrue and the acquisition and production costs can be reliably calculated.

Other intangible assets are recognized at the acquisition or manufacturing costs. If they have a determinable useful life, they are amortized on a straightline basis over a period of up to 10 years, except where their actual depletion demands a different method of amortization. Definition of the likely useful lives and the amortization methods is based on estimates of the period of cash inflows from the intangible assets and their temporal distribution within this period. If there is an indication of a possible reduction in value, an impairment test is carried out.

Details of the annual impairment tests are explained in the section on the method and effects of impairment tests.

If an impairment has been established, this is taken account of by unscheduled amortization. If the reasons for unscheduled amortization no longer exist, an appropriate write-up is carried out which does not exceed the amortized costs.

3.7 Property, plant and equipment

Property, plant and equipment is recognized at acquisition or production costs, reduced by scheduled depreciation over the useful life and as necessary unscheduled impairments.

The acquisition costs are made up of the acquisition price, the incidental acquisition costs, and the subsequent acquisition costs less any reductions received on the acquisition price.

Costs for current maintenance and service expenses are always recognized in the income statement.

Scheduled depreciation on property, plant and equipment is carried out by the straightline method over the expected useful life, except where their actual depletion demands a method of amortization based on depletion.

Depreciation is based on the following useful lives used uniformly across the Group:

	Years
IT hardware	3 – 5
Business equipment	3 – 10

Important components for an item of property, plant and equipment, which have different useful lives, are recognized and depreciated separately.

If there are indications of an impairment of an individual item categorized as property, plant and equipment, a review is carried out to establish whether the recoverable amount is above the book value. If this is not the case, unscheduled depreciation is recorded in the amount of the difference between the book value and the recoverable amount. If the reasons for unscheduled amortization no longer exist, an appropriate write-up is carried out which does not exceed the amortized costs.

If items of property, plant and equipment are sold, shut down or scrapped, the profit or loss is recorded as the difference between the net sales gain and the residual book value under other operating income or expenses.

3.8 Leasing

An agreement is deemed to be a leasing relationship if the lessor grants the lessee the right to use an asset for an agreed period of time in return for a payment or a series of payments. A distinction is drawn between finance leasing and operating leasing.

Finance leasing relates to leasing transactions where the lessee essentially bears all the risks and opportunities associated with the ownership of an asset. All other leasing relationships are designated as operating leasing.

If the KPS Group enters into a finance leasing relationship, the lower value of the fair value and the present value of the minimum leasing payments is capitalized as an asset in the balance sheet at the beginning of the leasing relationship and recognized in the same amount under financial liabilities in liabilities and shareholders' equity. The minimum leasing payments are essentially made up of financing costs and the repayment component of the residual debt, which are calculated in accordance with the effective interest method. The leasing object is depreciated by the straightline method over the estimated useful life or the shorter contract term.

In the case of a leasing relationship classified as operating leasing in accordance with IAS 17, the KPS Group records the leasing instalment payable as the lessee under other operating expense or the leasing instalment receivable as the lessor under other operating income. The leased asset continues to be recorded in the balance sheet of the lessor under property, plant and equipment.

3.9 Cash and cash equivalents

The cash and cash equivalents comprise the cash in hand, checks, and credit balances at banks and companies. Cash equivalents are current, exceptionally liquid financial investments which are only subject to negligible fluctuations in value and can easily be converted to fixed defined amounts of cash. They have a maximum term of three months when acquired or on the date of investment.

3.10 Financial instruments

A financial instrument is a contract which simultaneously leads to the creation of a financial asset in one company and to a financial liability or equity instrument in another company. Financial instruments comprise in particular cash and cash equivalents, trade receivables and other loans and receivables granted, financial investments held to maturity, and original and derivative financial assets held for trading purposes. Financial liabilities regularly reflect a repayment entitlement in liquid funds or another financial asset. Financial instruments are recognized as soon as KPS becomes a contractual partner in accordance with the rules of the financial instrument.

Financial investments and other financial assets

Financial assets are classified in other earnings, as financial assets that are valued at fair value affecting net income, at amortized cost, or as not affecting income at fair value. When financial assets are recognized for the first time, they are measured at their fair value. In the case of financial assets for which no valuation at fair value affecting net income is carried out, transaction costs are also included which are attributable directly to the acquisition of the financial assets. The Group defines the classification of its financial assets with the first-time application and reviews this allocation at the end of each business year insofar as this is permissible and appropriate.

Purchases and sales of financial assets as customary in the market are reported on the trading day, i.e. as at the day when the company receives the obligation to purchase the asset ("trade date accounting").

Financial assets valued at amortized cost (debt instruments)

This category has the most importance for the consolidated financial statements. The Group values financial assets at amortized cost if the two following conditions are fulfilled:

- the financial asset is held within the framework of a business model whereby the objective is to hold financial assets for collection of the contractual cash flows, and
- the contractual conditions of the financial assets lead to cash flows on defined dates that are exclusively repayment and interest payments on the existing capital amount.

Financial assets measured at amortized cost are valued using the effective interest method and should be reviewed for impairments. Gains and losses are recorded in the earnings for the period when the asset is derecognized, modified or impaired. The valuation of the expected credit loss is carried out in line with the simplification method in accordance with IFRS 9 B5.5.35 using a valuation allowance table. This impairment matrix is based essentially on historic experiences with credit losses and current data on long-overdue receivables. In addition, outstanding receivables are continuously monitored at local and central level in order to establish the extent to which there are objective indications that the creditworthiness of the corresponding receivables is impaired. Insofar as KPS AG comes to the conclusion on this basis that realization is unlikely, the corresponding receivables are partly or completely written off using the values in accordance with the impairment matrix.

The financial assets of the Group valued at amortized cost essentially include trade receivables and other financial assets.

Financial assets measured at fair value in other earnings with no effect on income (debt instruments)

The Group values debt instruments at fair value in other earnings with no effect on income if the two following conditions are fulfilled:

- The financial asset is held within the framework of a business model whereby the objective is collection of contractual cash flows and the sale of financial assets, and
- The contractual conditions of the financial asset lead on defined dates to cash flows that are exclusively repayment and interest payments on the outstanding capital amount.

If debt instruments are measured at fair value in other earnings with no effect on income, interest income, new valuations of currency translation gains and losses, and impairment expenses or reversals are recorded in the income statement and calculated in the same way as with financial assets measured at amortized cost. The remaining changes in the fair value are recorded in other earnings. On derecognition, the accumulated gains or losses from changes in the fair value recorded in other earnings are reclassified to the income statement.

Financial assets measured at fair value in other earnings with no effect on income (equity instruments)
At first-time recognition, the Group can make an irrevocable choice of classifying its equity instruments at fair value in other earnings with no effect on income if they meet the definition of shareholders' equity in accordance with IAS 32 Financial Instruments: Presentation, and are not held for trading purposes. The classification is carried out individually for each instrument.

Gains and losses arising from these financial assets are never reclassified in the income statement. Dividends are recorded as other income in the income statement if there is a legal entitlement to payment, unless a portion of the acquisition cost of the financial asset is recovered through the dividends. In this case, the gains are recorded in other earnings. Equity instruments valued at fair value in other earnings with no effect on income are not reviewed for impairment.

Derecognition of financial assets and financial liabilities
The financial assets are derecognized if the contractual rights and cash flows from a financial asset expire, or the financial asset and essentially all the risks and opportunities associated with ownership of the asset are transferred to a third party. If the Group essentially neither transfers nor holds all the risks and opportunities associated with ownership of the asset and continues to have power of disposal over the transferred assets, the Group records the remaining share as an asset and a corresponding liability relating to the amounts probably payable is recognized. If the Group essentially retains all the risks and opportunities associated with the ownership of a transferred financial asset, the Group continues to recognize the financial asset and a collateralized loan in respect of the retained consideration.

The financial liabilities are derecognized when the contractually defined obligations have been settled, discharged, or have expired. If an existing financial liability is replaced by another financial liability from the same lender with substantially different contractual conditions or if the conditions of an existing liability are substantially changed, such a replacement or change is dealt with by a derecognition of the original liability and recognition of a new liability. The difference between the relevant book values is recognized in profit or loss.

Impairment of financial assets
On each balance sheet date, the Group determines whether an impairment of a financial asset or a group of financial assets exists. Any impairments which occur as a result of a lower fair value by comparison with the book value are recognized in profit or loss.

Financial liabilities
At first-time recognition, financial liabilities are classified as financial liabilities which are measured at fair value with an effect on income, as a loan, as liabilities or derivatives which were designated as a hedging instrument and are effective as such.

At first-time recognition, all financial liabilities are measured at fair value, in the case of loans and liabilities less the directly attributable transaction costs.

The financial liabilities of the Group comprise trade liabilities and other liabilities, loans including current account loans and derivative financial instruments.

Financial liabilities measured at fair value with an effect on income comprise financial liabilities held for trading purposes and other financial liabilities (in particular earn-out obligations in accordance with IFRS 3.58b ii) which at their first-time recognition are classified as measured at fair value with an effect on income. Transaction costs are recognized directly in the income statement. The contingent considerations (earn-out obligations) were measured on the basis of the company's individual plans based on the discounted cash-flow method. WACCs of between 6.0 % and 7.7 % were used to determine the obligations as at 30 September 2019. These interest rates include country-specific risks. In the reporting year 2018/2019, 4,759 KEuros from the revaluation of these obligations were recognized in the income statement as profit or loss. No upper limit was defined for a contingent consideration. A scenario considered as possible in which the planned EBIT is 15 % higher in 2020/2021 would lead to an addition of 1,205 KEuros to the fair value of the earn-out obligation with an effect on income.

Subsequent valuation
The subsequent valuation of financial liabilities depends on their classification:
Financial liabilities measured at fair value with an effect on income comprise the financial liabilities held for trading purposes and other financial liabilities that are classified at fair value as affecting income. Transaction costs are recognized directly in the income statement. Loans are recognized for the first time at fair value less transaction costs. In the scope of subsequent valuation, loans are measured at amortized cost in accordance with the effective interest method, if the liabilities are derecognized. Gains and losses are recognized with an effect on income if the liabilities are derecognized, also within the framework of amortizations using the effective interest method.

Amortized costs are calculated taking into account a premium or discount in an acquisition and charges or costs which are an integral element of the effective interest rate. Amortization by the effective interest method is included in the income statement as part of financial expenses.

Derecognition
A financial liability is derecognized when the obligation underlying the liability is fulfilled, discharged, or has expired. If an existing financial liability is replaced by another financial liability from the same lender with substantially different contractual conditions or if the conditions of an existing liability are substantially changed, such a replacement or such a change is dealt with by a derecognition of the original liability and recognition of a new liability. The difference between the relevant book values is recorded in profit or loss.

Derivative financial instruments
Derivative financial instruments are used to increase return and for hedging purposes. The KPS Group uses financial instruments in order to counteract risks arising from changes in interest rate which can arise in the course of investment and financial transactions. Derivative financial instruments are used to hedge existing underlying transactions. These derivative financial instruments are initially recognized on the date when the corresponding contract was concluded at their fair values and subsequently reassessed at the present fair values. Derivative financial instruments are recognized as assets when their fair value is positive and as debts when their fair value is negative.

If derivative financial instruments do not meet the criteria for reporting of hedging transactions, profits or losses arising from changes to the fair value are immediately recorded in profit or loss. The derivative financial instrument (interest swap) used in the KPS Group does not fulfil the requirements for hedge accounting and it is therefore allocated to financial assets held for trading or to liabilities. It is valued at fair value and recognized in the income statement on first-time reporting and in subsequent accounting periods. Gains or losses arising from fluctuations in fair value are recognized immediately in the income statement with an effect on earnings. On 30 September 2019, the interest swap had a negative fair value in the amount of 106 KEuros.

3.11 Income taxes

Income taxes are recognized as the taxes levied on taxable profit in the individual countries and the change in deferred tax assets and liabilities in the income statement. The recognized income taxes are recorded at the amounts likely to be payable on the basis of the statutory regulations in force or already adopted on the balance sheet date.

In compliance with IAS 12 (Income Taxes), deferred taxes are calculated for temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and the balance sheet drawn up for tax purposes, on account of consolidation measures and on account of tax loss carryforwards and tax credits likely to be realizable.

Deferred tax assets relating to deductible temporary differences, tax credits and tax loss carryforwards are recognized to the extent that it is sufficiently probable that taxable earnings will be available in the future to enable the tax loss carryforwards to be utilized.

Deferred tax liabilities are recognized on temporary differences that will be taxable in the future.

Deferred taxes are calculated at the tax rates which are expected to apply in the individual countries at the point of realization. The rates are based on statutory regulations in force or already adopted on the balance sheet date. Deferred tax assets and liabilities can be offset subject to the requirements of IAS 12.71 ff. Material effects of changes on deferred tax assets and liabilities due to changes in the tax rate or tax legislation are taken account of in the period in which the legislative procedure governing the tax rate has been concluded. These changes are generally recognized under income.

Deferred and current taxes are generally recorded on the income statement unless they relate directly to items recorded in equity with no effect on income. They are then also recognized with no effect on income.

The assessment of the realizability of deferred taxes, which result from time differences and loss carryforwards, are subject to individual forecasts, including projections relating to the results of operations in the relevant Group company.

On each balance sheet date, the Group assesses whether the realization of future tax benefits is sufficiently probable for the recognition of deferred tax assets. This requires the management to make judgements including the assessment of tax benefits which arise from the available tax strategies and the future taxable income, and taking into account additional positive and negative factors. The deferred tax assets may be reduced if the estimates of the planned tax income and the tax benefits achievable by means of the available tax strategies are reduced or if changes to the current tax legislation restrict the time framework or the scope of realizable future tax benefits.

3.12 Treasury shares

When the company's own shares are purchased/disposed of, the nominal value of the shares is offset with the subscribed capital and the share premium with the profit carried forward/capital reserve.

3.13 Other provisions

Other provisions are formed for current, legal or factual obligations which result from events in the past which are likely to lead to a future outflow of economic resources and the amount of which cannot be reliably estimated.

Other provisions are valued in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) or as necessary in accordance with IAS 19 (Employee Benefits). Where the cash outflows to settle an obligation are not anticipated to occur until after one year, the provisions are recognized at the present value of the expected cash outflows.

Reimbursement claims receivable from third parties are capitalized separately from the provisions as other receivables if their realization is virtually certain.

If the scope of an obligation is reduced as a result of a change in the estimate, the provision is reversed by the proportionate amount and the resulting income is recorded in the operating items in which the original charge was recognized when the provision was formed.

Trade-related provisions in respect of customers and suppliers include in particular obligations for rebates and discounts, product returns, and services and goods received which have not yet been invoiced.

As a company, the KPS Group is exposed to legal risks. Provisions are recognized for litigation suits in the balance sheet in respect of pending or future litigation, subject to an appropriate case-by-case examination. The likely outcomes of such legal proceedings are evaluated on the basis of the available information and in consultation with the lawyers engaged to act for the KPS Group. If it is reasonably likely that a future obligation arising from legal proceedings will result in an outflow of resources in the future, the present value of the expected cash outflows is recorded as a provision under liabilities to the extent that these are considered to be reliably measurable. These provisions cover the estimated payments to plaintiffs, court costs, attorneys' fees, and the costs of potential settlements. The assessment is based on the current status of litigation as at the balance sheet date. This includes a review of whether the criteria for recognizing a provision have been met and if this is the case the amount of the provision to be formed. Litigation disputes and other legal proceedings generally raise complex issues and are subject to many uncertainties and complexities, including the facts and circumstances of each particular case, issues relating to the jurisdiction in which the lawsuit is filed, and differences in the applicable law. The results of any pending or future proceedings cannot therefore be predicted. The judgment rendered in a court proceeding or an arbitration settlement may incur costs for the KPS Group which are in excess of the presently established provision and related insurance coverage.

Personnel-related provisions are mainly recognized in the balance sheet for annual bonus payments, and variable and individual one-off payments.

3.14 Pension provisions

The obligations arising from defined benefit pension plans are calculated using the actuarial Projected Unit Credit Method. This assesses the cash value of the defined future benefit obligation (DBO) on the basis of the pro rata benefit entitlements accrued by the employees on the balance sheet date. The cash value is calculated taking future expected salary and pension trends into account, since the benefit entitlement that can be attained up to the standard retirement age is dependent on this. The assumptions made for the calculation of the DBO on the balance sheet date of the previous year are applicable for the calculation of the current past service costs and the interest income and interest expenses of the following business year. The net interest income or expenses for a business year are calculated by multiplication of the discount rate for the relevant business year by the net asset value or the net obligation on the balance sheet date of the previous business year. The fair value of the plan assets and the DBO and hence also the interest income from the plan assets and the interest expenses from the DBO are adjusted to take account of significant events (e.g. special endowments, plan changes). The DBO includes the cash value of the taxes on contributions or benefits to be borne by the pension plan in connection with the service periods already rendered.

If the pension obligations are not covered by the plan assets, a pension provision in the amount of the DBO is recognized. If the obligations are covered by the plan assets, the company offsets the fair value of the plan assets with the DBO and capitalizes the net amount under liabilities, adjusted by any effects arising from the asset cap, under the pension provisions.

The current and past service costs for pension obligations and other administrative costs which are not connected with the administration of the plan assets are recorded under personnel expenses. The past service costs and gains/losses from plan settlements are immediately recorded in the income statement. Costs for administration and taxes which are directly connected with the plan assets are recorded (not affecting income) in the item Other earnings after taxes. Actuarial gains and losses arising e.g. from adjustment of the discount rate are recorded in the item Other earnings taking account of deferred taxes (not affecting income).

Pensions and similar obligations are reported using actuarial valuations. These valuations are based on statistical and other factors so that future events can be anticipated in this way. These factors include actuarial assumptions such as discount interest rate, expected capital gain on the plan assets, expected salary increases and mortality rates. These actuarial assumptions can vary significantly from the actual developments on account of changes in market and economic conditions and they may therefore lead to a significant change in the pension and similar obligations and to the associated future expense.

3.15 Company acquisitions

Company mergers have been reported on the basis of the acquisition method in accordance with IFRS 3 since 2016/2017. The acquisition costs of a company acquisition are measured on the basis of the fair values of the transferred assets and the liabilities incurred or assumed at the date of acquisition. Acquisition costs are recorded under expenses on the date they are incurred. The acquired, identifiable assets in a company merger and the assumed liabilities (including contingent liabilities) are valued at their fair value on the date of acquisition, independently of the extent of non-controlling interests. Adjustments of contingent purchase price components, which are recognized at the date of the acquisition, will be recorded under expenses.

3.16 Procedure used in impairment tests and its impact

Apart from the impairment tests for individual items categorized as property, plant and equipment, and intangible assets, impairment tests are also carried out at the level of cash-generating units (cgu). A cash-generating unit is the smallest identifiable group of assets which generate cash inflows largely independently of other assets or groups of assets. In the KPS Group, the Strategic Business Units and individual companies are regarded as cash-generating units and are subject to impairment tests.

The Strategic Business Units are the second reporting level below the reporting segments. An impairment test for a cash-generating unit is either carried out if there is an indication for an impairment or at least annually if a Strategic Business Unit is allocated goodwill or intangible assets with an indefinite useful life.

When an impairment test is carried out, the residual book values of the individual cash-generating units or the items of property, plant and equipment or intangible assets to be tested are compared with the relevant recoverable amount, i.e. the higher value out of the fair value less the costs of disposal and the value in use. In cases where the book value exceeds the recoverable amount, a valuation adjustment is recognized in the amount of the difference. In this case, the first step involves the goodwill for a Strategic Business Unit being written down. Any remaining residual amount is distributed among the other assets of the relevant Strategic Business Unit in proportion to the book value. The value adjustment expense is generally recognized in the income statement under other operating expenses.

When the recoverable amount is determined, it is calculated from the present value of cash flows for the fair value less the disposal costs and for the value in use. The forecast for the future net cash inflows relating to the determination of the recoverable amount is derived from the current plans of the KPS Group, which are generally based on a planning horizon of up to three years. This primarily involves making assumptions about future selling prices, sales volumes, and costs. Where the recoverable amount is recognized as the fair value less the costs of disposal, the cash-generating unit is valued from the viewpoint of an independent arm's length market participant. Where the recoverable amount is the value in use, the cash-generating unit or the individual asset is valued in its current use. Net inflows beyond the planning period are determined for both methods on the basis of long-term business expectations using individual growth rates derived from the relevant market information.

The net cash inflows are discounted at cost-of-capital rates. The cost-of-capital rates correspond to the return expectations of shareholders and represent the long-term financing conditions of comparable companies.

The weighted average cost of capital (WACC) used for recoverability tests of goodwill and for discounting of projected cash flows was 6.0 % (previous year: 6.32 %) for Germany. Country-specific risk mark-ups and deviating expectations for inflation were taken account of for goodwill amounts that are allocated to foreign cash generating units. The capitalization interest rates of foreign cash generating units are between 6.0 % and 7.7 %. When perpetual annuities are calculated, an additional growth factor of 1 % is used.

4 EXPLANATIONS FOR SEGMENT REPORTING

KPS is a consulting company specialized in the areas of business transformation and process optimization. It ranks among the leading consulting companies in Germany.

The KPS consulting portfolio can be classified into the following three reportable segments which are subject to regular assessment by the Executive Board. The segmentation is carried out exclusively on the basis of business areas in accordance with the internal alignment.

4.1 Management consulting / Transformation consulting

The focus of this consulting segment is on "transformational consulting" where KPS occupies a leading position in the consulting market. Transformation consulting involves providing support for customers and developing concepts and solutions taking into account process, organizational, logistic, financial and systems framework conditions. The consulting package closes the gap between traditional strategy and process consultants on the one hand and implementation partners and system integrators on the other hand. This consulting segment also comprises implementation consulting and the service portfolio of KPS as an SAP consulting partner.

4.2 System integration

The focus of this consulting segment is on process and implementation consulting in the technology sector. KPS covers the field of non-SAP technologies as well as the field of SAP technologies. The focuses in the SAP technology areas are mainly on the subject areas of eSOA and Netweaver, in the non-SAP area on the topics of solutions for high availability, security, and storage. Since a secure and highly available system landscape forms the platform for successful companies, KPS uses dedicated solutions to ensure seamless integration of all processes in the heterogeneous system environment. KPS supports customers in analyzing the actual situation and the setup of an IT infrastructure where all operational function areas are transparent.

4.3 Products / Licenses

KPS completes its spectrum of services by selling software licenses, maintenance contracts and hardware components in certain areas as a certified systems house or certified sales partner. These are products from major manufacturers, in particular SAP, IBM and SAPERION. KPS has been working together with them for many years and is linked with them in various consultancy and sales partnerships.

The breakdown of the net assets and income in accordance with IFRS 8 is shown in the following table and it corresponds with the internal reporting structure:

Segment reporting for the business year 2018/2019

Presentation by business areas in KEuros	Management consulting/ Transformation consulting		System integration		Products/ Licenses		Other		Overall	
Earnings position	30.09.2019	Previous year	30.09.2019	Previous year	30.09.2019	Previous year	30.09.2019	Previous year	30.09.2019	Previous year
Sales	170,236	151,166	1,999	1,333	8,421	19,724	0	0	180,656	172,223
Production costs	-117,663	-108,727	-1,530	-879	-6,135	-15,188	0	0	-125,327	-124,794
Development costs	-4,039	-4,395	-58	-238	-147	-114	0	0	-4,244	-4,747
Operating costs	-10,310	-9,045	-603	-225	-364	-320	-17,258	-13,069	-28,535	-22,659
EBITDA	38,224	28,999	-191	-9	1,775	4,102	-17,258	-13,069	22,550	20,024
Depreciation and amortization	-3,413	-3,204	0	0	0	0	-334	-227	-3,747	-3,431
EBIT	34,811	25,795	-191	-9	1,775	4,102	-17,592	-13,295	18,803	16,593
Interest	-22	-19	0	0	0	0	-854	-1,307	-876	-1,326
Taxes	-10,410	-5,047	57	2	-531	-803	5,261	2,601	-5,623	-3,246

The revenues shown only include sales with external customers. Sales and prepayments between the segments are netted on the basis of market prices.

The allocation of the tax expense to the individual segments was made on the basis of the EBITs of the segments.

Information about income and expenses of KPS AG as a holding company is essentially presented under the segment "Other information" in segment reporting.

Sales and EBITDA essentially form the basis for company decisions at KPS AG. Other information (assets, liabilities) is mostly not relevant for assessments.

The valuation principles applied in the course of segment reporting are the same as the valuation principles for the company overall.

4.4 Information on geographical areas

The breakdown of revenues amounting to 180.7 (previous year: 172.2) million euros by regions provides the following picture for the business year 2018/2019: the main sales contributor was Germany with 103.7 (previous year: 129.3) million euros or 57.4 %. Sales of 77.0 (previous year: 42.9) million euros were generated abroad. The geographical allocation is made on the basis of the registered office of the client. The breakdown can be divided into the following regions: Scandinavia with a volume of 40.8 (previous year: 16.4) million euros or 22.6 %, Spain with 12.3 (previous year: 11.8) million euros or 6.8 %, Benelux with 10.0 (previous year 6.8) million euros or 5.5 % and the United Kingdom with 9.7 (previous year: 4.0) million euros or 5.4 %, and Switzerland with 3.1 (previous year: 0.0) million euros or 1.7 %. The remaining sales revenues amounted to 1.1 million euros (0.6 %) and were mainly generated in the other EU countries. These belong to the segment of managing consulting/transformation consulting.

4.5 Dependence on important customers

Two (previous year: one) major customers in accordance with IFRS 8.34 are included in the segment “Management Consulting/Transformation Consulting”, the revenues generated amount to 54.4 (previous year: 41.8) million euros.

5 SUBSIDIARIES AND AFFILIATES AND SCOPE OF CONSOLIDATION

5.1 Development of the scope of consolidation

The consolidated financial statements include the legal and business parent company of the Group and all the domestic and foreign subsidiary companies over which KPS AG exercises control of the financial and business policy in order to derive the corresponding benefit.

Alongside KPS AG as the legal parent company, the scope of consolidation covers the following companies in which KPS AG has a direct or indirect shareholding and which are included in the consolidated financial statements on the basis of full consolidation.

1.) The profit for the year 2018/2019 was transferred to KPS AG in accordance with the profit transfer agreement concluded, taking account of the payout block in accordance with Article 268 Section 8 German Commercial Code (HGB).

2.) KPS Consulting AS, Oslo, Norway, was established on 19 September 2019. The capital stock amounting to NOK 500,000 was paid in on 23 September 2019.

5.2 Acquisitions and establishments after the balance sheet date

There were no acquisitions and no subsidiaries were established after the balance sheet date.

5.3 Divestments and assets held for sale

There were no divestments and assets held for sale in this business year or in the previous business year.

Shareholding	Registered office	Share in %	Currency	Subscribed capital 30.09.2019 (previous year)	Equity capital 30.09.2019 (previous year)	Result for the year 2018/2019 (previous year)
KPS Business Transformation GmbH **(1)**	Unterföhring	100	KEuros	500 (500)	764 (500)	1,460 (6,026)
KPS Services GmbH	Unterföhring	100	KEuros	6,300 (6,300)	7,831 (9,699)	1,133 (2,433)
KPS Consulting Verwaltungs GmbH	Unterföhring	100	KEuros	26 (26)	39 (38)	1 (1)
KPS Consulting GmbH & Co. KG	Unterföhring	100	KEuros	5,113 (5,113)	5,113 (5,113)	1,089 (2,855)
KPS Consulting AG	Zurich/ Switzerland	100	KCHF	100 (100)	791 (602)	189 (-1,115)
KPS Solutions GmbH	Unterföhring	100	KEuros	80 (80)	2,440 (3,738)	-1,298 (2,772)
KPS digital GmbH **(1)**	Dortmund	100	KEuros	25 (25)	2,554 (2,554)	1,016 (540)
KPS Consulting A/S	Virum/ Denmark	100	KDKK	500 (500)	78,183 (23,079)	73,352 (18,251)
KPS B.V.	Amsterdam/ Netherlands	100	KEuros	100 (100)	780 (1,357)	680 (1,257)
KPS Consulting Inc.	Wilmington/ USA	100	KUSD	100 (100)	162 (827)	62 (727)
KPS Strategie-, Prozess- und IT-Consulting GmbH	Vienna/ Austria	100	KEuros	100 (100)	9 (57)	-49 (-43)
ICE Consultants Europe S.L.	Barcelona/ Spain	100	KEuros	59 (59)	3,958 (3,449)	2,756 (2,247)
Infront Consulting & Management GmbH	Hamburg	100	KEuros	50 (50)	2,380 (521)	1,859 (84)
KPS Digital Ltd. (formerly: Envoy Digital Ltd.)	London/ United Kingdom	100	KGBP	0,2 (0,2)	2,139 (1,253)	1,193 (307)
KPS Consulting AS **(2)**	Oslo / Norway	100	KNOK	500 n/a	500 n/a	0 n/a

6 EXPLANATIONS FOR THE INCOME STATEMENT

6.1 Revenues

Charges for deliveries, and services and products – reduced by sales reductions and discounts – billed to customers are recognized in revenues.

Revenues derived from the provision of services and maintenance are time-limited, the sale of software and hardware is realized at a defined point in time. Customers are primarily only commercial end users and to a limited extent public-sector contracting authorities.

All revenues shown result exclusively from contracts with customers.

The recognized revenues result from ordinary business activities. Please refer to our comments under section 4 in relation to allocation to individual segments. The revenues are allocated to the individual sales generators as follows:

	Year under review 2018/2019		Year under review 2017/2018	
	KEuros	%	KEuros	%
Provision of services	177,782	98 %	161,898	94 %
Sales of goods and hardware	942	1 %	8,022	5 %
Maintenance	1,932	1 %	2,303	1 %
Total revenues	180,656	100 %	172,223	100 %

In the business year 2018/2019, revenues amounting to 2,081 KEuros were recognized which relate to incoming payments from earlier accounting periods.

In the business year 2018/2019, no significant revenues arising from performance obligations, which were fulfilled in previous accounting periods, were recorded.

Transaction prices result from maintenance contracts with a residual term of up to 1.5 years, which were not yet recognized as revenues. The likely revenues to be recorded are distributed as follows:

in KEuros	Year under review 2019/2020	Year under review 2020/2021	Total
Revenues likely to be recognized	1,718	800	2,518

6.2 Own work capitalized

In the business year, internally generated intangible assets amounting to 2,449 (previous year: 2,832) KEuros were capitalized. The capitalizations are shown in the following table:

	Year under review 2018/2019	Year under review 2017/2018
	KEuros	KEuros
Development of processing streams for SAP	2,045	2,338
Internally generated software	404	494
Total all work capitalized	2,449	2,832

6.3 Other operating income

In the business year, internally generated intangible assets amounting to 615 (previous year: 3,233) KEuros were capitalized. The capitalizations are shown in the following table:

	Year under review 2018/2019	Year under review 2017/2018
	KEuros	KEuros
Income from release of provisions	32	2
Income from release of earn-out obligations	0	2,153
Income from discounts	203	256
Income from exchange-rate differences	298	505
Charging of payments in kind to employees	0	123
Other income	82	194
Total other operating income	615	3,233

6.4 Cost of materials

The cost of materials amounts to 62,678 (previous year: 68,489) KEuros and includes expenses for hardware and software purchased amounting to 2,137 (previous year: 7,934) KEuros and expenses for services purchased amounting to 60,541 (previous year: 60,555) KEuros.

6.5 Personnel expenses and employees

Personnel expenses in the year under review amount to 66,410 (previous year: 62,187) KEuros. Wages and salaries account for 58,783 (previous year: 55,012) KEuros and social security expenses account for 7,627 (previous year: 7,175) KEuros.

The expenses for defined benefit pension plans included in personnel expenses amount to 200 (previous year: 272) KEuros.

On average, 586 (previous year: 565) employees (not including Members of the Executive Board and Managing Directors) were employed over the year, of which 504 (previous year: 498) were consultants and 77 (previous year: 67) were administrative employees.

	30.09.2019	30.09.2018	Change
Employees by region			
Germany	448	457	-9
Spain	89	65	24
United Kingdom	48	35	13
Denmark	20	20	0
Switzerland	7	8	-1
Austria	4	5	-1
Netherlands	2	1	1
Total	618	591	27
Employees by function			
Executive Board	1	1	0
Managing Directors	15	14	1
Consultants	519	508	11
Administration	82	67	15
Apprentices	1	1	0
Total	618	591	27

6.6 Other operating expenses

Other operating expenses amount to 32,082 (previous year: 27,589) KEuros and the breakdown is shown in the following table:

in KEuros	2018/2019	2017/2018
Travel and hospitality costs	8,024	7,628
Addition of earn-out obligations	4,759	2,206
Purchased services	3,731	2,453
Vehicle costs	2,924	2,956
Premises costs	2,320	1,874
Advertising and marketing costs	1,590	1,614
Personnel recruitment and advanced training	1,519	945
Legal and consulting costs	1,455	2,126
Hire costs for operating and business equipment	1,015	905
Telephone and other communication costs	685	698
Valuation allowance for receivables	670	1,060
Currency translation differences	348	708
Insurance policies	338	206
Capital market costs	309	275
Other expenses	2,395	1,935
Total other operating costs	32,082	27,589

6.7 Depreciation and amortization

Depreciation and amortization for the business year amount to a total of 3,747 (previous year: 3,430) KEuros. The breakdown of the depreciation and amortization is presented in the table showing development of fixed assets.

Out of depreciation and amortization amounting to 3,747 KEuros, 2,333 (previous year: 2,581) KEuros are attributable to amortization on order backlog and customer relationships. These are assets that were recognized in the context of the purchase price allocation for the company acquisitions of the current business year and previous years. This amortization is recognized in a separate line in the income statement and an operating result (EBIT) before this write-down is reported in order to show the effect of the acquisition separately.

As part of relocation of the Dortmund site, business and office equipment no longer used was depreciated at the fair value less the costs of sale. This generated an impairment amounting to 205 KEuros in the Management Consulting segment.

6.8 Other financial income and expenses

Other financial income amounts to 77 (previous year: 13) KEuros and results primarily from discounting of non-current liabilities.

Other financial expenses amount to 953 (previous year: 1,339) KEuros and interest expenses from revaluation of earn-out liabilities amounting to 550 (previous year: 957) KEuros, interest and guarantee fees to banks amounting to 315 (previous year: 314) KEuros, and compounding of non-current provisions amounting to 33 (previous year: 17) KEuros, and changes to fair value of financial liabilities designated at fair value and recognized in the income statement amounting to 55 (previous year: 51) KEuros.

6.9 Income taxes

Income taxes for the business years 2018/2019 and 2017/2018 are shown in the following table:

	Year under review 2018/2019	Year under review 2017/2018
	KEuros	KEuros
Current tax expense	-5,528	-3,329
Tax expense for previous years	-95	82
Deferred tax expenses	-112	-2,189
Income taxes	-5,735	-5,436

Deferred taxes relate to tax loss carryforwards and time-related differences of recognized values between the tax balance sheets of individual companies and the values recognized in the consolidated balance sheet in accordance with the liability method.

On 30 September 2019, tax loss carryforwards amount to 24,240 (previous year: 27,395) KEuros for trade tax and 16,106 (previous year: 19,030) KEuros for corporate income tax.

In order to calculate deferred taxes, the local tax rates of the affected national countries were applied, these are between 18.0 % and 30.1 %.

The amount of unusable tax losses for which no deferred tax asset was recognized amounts to 3,688 (previous year: 760) KEuros for corporate income tax and 10,730 (previous year: 13,731) KEuros for trade tax.

The following table shows a reconciliation of the expected tax expense, based on the German combined income tax rate of the company from the current rate of 30.1 % (previous year: 28.9 %) to the actual tax burden. The combined rate of income tax for the year under review is made up of corporate income tax amounting to 15 % (previous year: 15 %) plus 5.5 % (previous: 5.5 %) solidarity surcharge and trade tax amounting to 14.3 % (previous year: 13.1 %).

in KEuros	2018/2019	2017/2018
Annual profit before income taxes	17,927	15,267
Income tax rate	30.1 %	28.9 %
Expected nominal tax expense	**-5,392**	**-4,409**
Tax consequences resulting from:		
Tax effects on account of tax carryforwards	960	2,662
Tax effects on account of non-deductible operating expenses, goodwill write-downs and other tax modifications	-2,776	-1,032
Deferred taxes on loss carryforwards	-784	-3,145
Deferred taxes on account of HB II (commercial balance sheet II) adjustments / StB (tax balance sheet effects)	672	956
Deviations of local tax rates from the average income tax rate	1,680	268
Tax effects relating to other accounting periods	-95	-588
Other effects	0	-148
Actual income tax expense	-5,735	-5,436
Effective tax rate	**32.0 %**	**35.6 %**

Deferred tax assets and liabilities

in KEuros	30.09.2019		30.09.2018	
	Assets	Liabilities	Assets	Liabilities
Loss carryforwards	3,891	0	4,675	0
Pension provision	151	70	232	0
Other provisions	166	373	121	378
Trade receivables	22	94	0	206
Fixed assets	547	1,132	460	1,630
Other items	0	0	0	0
Total	4,777	1,669	5,488	2,214

This item relates to IFRS differences in respect of the commercial balance sheet (II)/tax balance sheet. Deferred tax assets amounting to 2,223 (previous year: 3,463) KEuros have a term of more than one year. Out of the deferred tax liabilities, 1,575 (previous year: 2,008) KEuros are non-current and 94 (previous year: 584) KEuros are current.

Deferred tax liabilities amounting to KEuros 70 relate to actuarial gains and losses from pension provisions and are recognized directly in other earnings.

6.10 Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to shareholders of KPS AG and the weighted average number of shares in free float during the business year. A dilution of the earnings per share results from the so-called "potential shares". These relate to option rights, although they only act to dilute earnings if their intrinsic value was positive during the period. Consequently, no diluting effect arises from the option rights.

Over the entire business year, KPS did not have any treasury shares in its portfolio. Owing to this, the average number of shares in free float increased to 37,412,100. By comparison with the previous year, the earnings per share were calculated as follows:

	2018/2019	2017/2018
Group earnings attributable to shareholders of KPS AG in KEuros	12,192	9,831
Average number of shares	37,412,100	37,371,072
Basic/diluted earnings per share in euros	0.33	0.26

6.11 Other earnings

Other earnings amounting to 63 (previous year: 220) KEuros comprise changes in the obligation arising from a fully insured BVG Plan to be classified as a defined-benefit pension plan of KPS Consulting AG, Zurich, Switzerland amounting to 45 (previous year: 169) KEuros, and from currency translation differences from financial statements that were prepared in foreign currencies amounting to 18 KEuros (previous year: 51) KEuros.

7 EXPLANATIONS FOR THE BALANCE SHEET

7.1 Property, plant and equipment

This item essentially includes office fittings and owner-used IT hardware.

Please refer to the consolidated fixed asset movement schedule for the development of the non-current assets explained below.

7.2 Goodwill and other intangible assets

The item includes software and associated licenses, which were partly self-developed and also purchased against payment. During the course of the business year, development costs amounting to 2,449 (previous year: 2,832) KEuros were capitalized. The development costs are written down as soon as the assets can be used over the likely useful life of up to 10 years. A proportion of the assets were produced in the year under review. The amortization amounted to 729 (previous year: 363) KEuros in the year under review.

Furthermore, goodwill is recognized under intangible assets, which originate exclusively from capital consolidations.

The recognized goodwill amounts to 62,546 (previous year: 62,546) KEuros and is allocated to the following cash-generating units:

in KEuros	2018/2019	2017/2018
KPS Services GmbH	1,158	1,158
KPS Consulting GmbH & Co. KG	7,791	7,791
KPS Solutions GmbH	345	345
Saphira Consulting A/S	1,755	1,755
KPS digital GmbH	21,178	21,178
ICE Consultants Europe S.L.	12,243	12,243
Infront Consulting & Management GmbH	10,193	10,193
KPS Digital Ltd. (formerly: Envoy Digital Ltd.)	7,883	7,883
Total	62,546	62,546

7.3 Deferred tax assets

Deferred tax assets amount to 4,777 (previous year: 5,488) KEuros and essentially reflect the level of likely tax loss carry-forwards of KPS AG, KPS Consulting GmbH & Co. KG, KPS Services GmbH and KPS Solutions GmbH.

7.4 Contractual assets and contractual liabilities

In the case of works contracts (fixed-price projects), KPS is entitled to advance payments as soon as specified performance-related milestones have been reached and acceptance by the customer has taken place. Up to that point, the goods and services provided are capitalized as contractual assets. Prior to the amendment to IFRS 15, future receivables from production orders amounting to 2,282 KEuros were recognized as at 30 September 2018, or respectively 346 KEuros would have been recognized through application of net reporting in accordance with IFRS 15. Amounts recognized as a contractual asset in the amount of 4,100 KEuros are transferred to trade receivables at the point when an invoice is issued to the customer. All contractual assets fall due within one year.

The significant increase in contractual assets in the business year 2018/2019 is due to an increase in the number of fixed-price projects in the business year 2018/2019.

KPS determines the impairment on contractual assets in the amount of the expected losses over the residual term taking into account the receivables arising from historic default experience and the future prospects in the IT services sector. None of the claims against customers are overdue on the reference date.

Over the current reporting period, there were no changes in the assessment methods or the important assumptions in relation to determining the impairments.

The following table shows the risk profile of the contractual assets based on the impairment matrix of the Group. Since there are no significant differences based on historic experiences with credit losses in the Group in relation to the different customer segments, a distinction is no longer drawn between the different customer groups within the Group in relation to the impairment based on arrears.

in KEuros	2018/2019	2017/2018
Impairment ratio	0.23 %	0
Estimated book value on default	4,100	0
- Amounts not overdue	4,100	0
Losses expected over the residual term	13	0
Net book value	4,087	0

There were no significant changes to the gross book values of the contractual assets that contributed to changes in impairment.

The contractual liabilities include prepayments collected from customers for future provision of services. Prior to application of IFRS 15, advance payments received amounted to 2,081 KEuros as at 30 September 2018 or respectively 146 KEuros would have been recognized as contractual liabilities under application of IFRS 15. In the business year 2018/2019, there were no significant changes to contractual liabilities.

7.5 Trade receivables

Receivables and other assets are recognized after deduction of allowances for doubtful items. On 30 September 2019, trade receivables amount to 40,740 (previous year: 41,667) KEuros, on which specific valuation allowances amounting to 526 (previous year: 211) KEuros and allowances for expected credit losses amounting to 330 KEuros are formed.

in KEuros	2018/2019	2017/2018
Trade receivables	41,596	41,878
Individual valuation allowances	-526	-211
Allowances for expected credit losses	-330	0
	40,740	**41,667**

During the current reporting period, there were no changes to the estimation methods or the significant assumptions with respect to determination of the impairments of expected losses for receivables over the residual term compared with the impairment determined and reported in the notes to the consolidated financial statements in the previous year.

KPS books a trade receivable when information is available indicating that the debtor is in serious financial difficulties and there is no realistic prospect of receiving payment.

The following table shows the risk profile for the trade receivables (not including the trade receivables already impaired) on the basis of the impairment matrix of KPS. Since there are no significant differences based on historic experiences with credit losses in relation to different customer segments, a distinction is no longer drawn between the different groups of customers within the Group in relation to the impairment based on arrears.

Trade receivables - days overdue **30.09.2019**

in KEuros	not overdue	1 < 22	23 – 30	31 – 60	> 60	Total
Impairment rate	0.23 %	1.12 %	1.61 %	4.14 %	5.44 %	
Estimated gross book value in case of default	29,405	2,475	2,283	153	31	
Expected losses over the residual term	68	28	37	6	2	**140**

In addition to the impairment in accordance with stage 1 and stage 2, an impairment for expected credit losses in the amount of 190 KEuros was formed in accordance with stage 3 such that a total impairment for expected credit losses of 330 KEuros resulted.

Trade receivables - days overdue **30.09.2018**

in KEuros	not overdue	1 < 22	23 – 30	31 – 60	> 60	Total
Impairment rate	0.25 %	1.06 %	1.33 %	2.48 %	3.31 %	
Estimated gross book value in case of default	30,955	2,347	4,324	856	3,184	
Expected losses over the residual term	77	25	57	21	105	**285**

The following table shows the development of losses expected over the residual term which were recognized for the individual trade receivables and other receivables in conformity with the regulations of the simplified model in accordance with IFRS 9:

in KEuros	2018/2019	2017/2018
Impairments as at 01.10.	**212**	**547**
+ Additions	344	111
- Utilization/Release	-30	-446
+ Addition Impairment of expected credit losses	330	0
Transfer to receivables with objective indication of impairment	0	0
Transfer from receivables with objective indication of valuation allowance	0	0
Valuation adjustments on account of change in the default risk	0	0
Derecognitions	0	0
Reversals	0	0
Change in impairments that are due to new receivables less the settled receivables	0	0
Income and expenses from foreign currency translation	0	0
Model changes not due to changes in the default risk	0	0
Impairments as at 30.09.	**856**	**212**

The additions amounting to 344 KEuros relate to overdue receivables for which only a partial incoming payment is expected. This does not result from impaired creditworthiness of the debtor but from divergences in the invoicing of specific products or services. Out of the overdue and impaired receivables on 30 September 2019 in the amount of 4,557 KEuros, 1,899 KEuros are from the business year 2017/2018. According to information received from the company lawyers, the claims of KPS AG are fully justified. All allowances relate to the Management Consulting/Transformation Consulting segment and were recognized as expense in the income statement.

In addition, unrecoverable receivables amounting to 30 KEuros were derecognized in the year under review 2018/2019. These also relate to the Management Consulting / Transformation Consulting segment and were recognized as expense in the income statement.

7.6 Other receivables

Other receivables amount to 1,889 (previous year: 1,342) KEuros and are comprised as follows:

in KEuros	2018/2019	2017/2018
Advance payments	1,217	582
Receivables from employees	0	119
Payments on account	0	110
Deposit payments	192	181
Creditor accounts in debit	292	203
Refund claims from foreign input taxes	154	146
Other receivables	34	1
Total other assets	1,889	1,342

7.7 Entitlements to income tax rebates
On the balance sheet date, entitlements arising from income tax amounted to 1,022 (previous year: 245) KEuros.

7.8 Cash and cash equivalents
Bank balances and cash in hand amount to 9,855 (previous year: 9,084) KEuros on the balance sheet date. The development of liquid funds is shown in the cash flow statement.

7.9 Shareholders' equity
Please refer to the statement of changes in equity for information on the development of Group equity.

7.9.1 Subscribed capital
The subscribed capital for KPS AG amounts to 37,412,100 (previous year: 37,412,100) euros on the balance sheet date and it is distributed over a total of 37,412,100 registered no-par value ordinary shares. The capital stock is fully paid up.

The number of shares on the balance sheet date amounted to 37,412,100 no-par shares (previous year: 37,412,100 no-par shares).

During the course of the business year, no own shares (treasury shares) were purchased or sold. On the reference date, no treasury shares were held (previous year: 0 shares).

7.9.2 Authorized capital
The authorization for creation of authorized capital 2014/I approved by the Annual General Meeting on 28 March 2014 was cancelled by resolution of the ordinary Annual General Meeting held on 7 April 2017. Instead, authorized capital 2017/I was created in the amount of 18,706,050 euros.

As a result of this resolution, the Executive Board is empowered with the consent of the Supervisory Board to increase the capital stock up until 6 April 2022 once or more than once up to a total of 18,706,050 euros against cash and/or non-cash contributions by the issue of new registered ordinary shares with no par value (no-par shares), subject to the possible exclusion of shareholders' pre-emptive rights.

There was no change in the authorized capital 2017/I during the business year 2018/2019.

7.9.2.1 Contingent capital
The resolution passed by the ordinary Annual General Meeting held on 7 April 2017 increased the capital stock by up to EUR 2,000,000 ordinary bearer no-par-value shares (contingent capital 2017/I). The contingent capital increase serves exclusively for the purpose of granting share option rights. The Executive Board was authorized to issue such rights up to 6 April 2022.

7.9.3 Capital reserve
The negative opening balance results primarily from the reverse acquisition carried out in the business year 2007/2008 in the course of reporting the capital stock of KPS AG. Furthermore, the differences between the prices of the new shares issued on account of the increase in capital stock and the treasury shares transferred and their nominal values are transferred to the capital reserve.

The following table shows the development:

in KEuros	
Balance on 30.09.2017	**-11,595**
Capital gain from sale of treasury shares	1,373
Share premium on capital increase	0
Balance on 30.09.2018	**-10,222**
Capital gain from sale of treasury shares	0
Share premium on capital increase	0
Balance on 30.09.2019	**-10,222**

7.9.4 Retained earnings
The retained earnings came into being because the vesting period for the share option program from 2004 ended in the business year 2006/2007. In accordance with IFRS 2.23, the portfolio of share options after the date of the first exercise option opportunity has not been changed. Any resulting changes from fluctuation, expiry of the exercise right, etc. were reported in retained earnings. On account of the resolution relating to the appropriation of the net profit passed by the Annual General Meeting on 27 March 2015, a transfer of the amount of 3,000,000 euros was made to other retained earnings. On the basis of a resolution adopted by the Executive Board and the Supervisory Board, an amount of 1,000,000 euros was transferred from net income for the year before tax to other retained earnings in the course of preparing the annual financial statements. On account of the resolution passed by the Annual General Meeting on 15 April 2016, an amount of 3,401,100 from retained earnings was converted to capital stock.

7.9.5 Other earnings
Other earnings amounting to -364 (previous year: -427) KEuros are made up as follows:

in KEuros	30.09.2019	30.09.2018
Items not classified in the income statement:		
Change in actuarial profits (losses) from pension plans	-503	-478
Items that will not be reclassified in the income statement in future:		
Exchange-rate differences	69	51
of which changes in unrealized gains/losses	69	51
of which realized gains/losses	0	0
Other comprehensive income before taxes	**-434**	**-427**
Taxes on other earnings	70	0
Other earnings after taxes	**-364**	**-427**

7.9.6 Group net profit

The development of the Group net profit recognized on 30 September 2019 amounting to 36,752 (previous year: 37,654) KEuros is shown in the following table:

in KEuros	2018/2019	2017/2018
Balance on 01.10.	**37,654**	**40,476**
Earnings after income taxes	12,192	9,831
Share premium on treasury shares	0	441
Allocation to other retained earnings	0	0
Dividend payout	**-13,094**	**-13,094**
Balance on 30.09.	**36,752**	**37,654**

The payout is based on the resolution adopted by the Annual General Meeting on 29 March 2019, according to which 0.35 (previous year: 0.35) euros were paid on each dividend-bearing share. The Annual General Meeting therefore concurred with the proposal by the Executive Board.

7.9.7 Treasury shares

The resolution adopted by the Annual General Meeting on 21 May 2010 and the substitution of the resolution by the Annual General Meeting on 27 March 2015, provided the authorization to acquire and dispose of its own shares with the right of excluding subscription or other option rights to offer shares. Pursuant to Article 71 Section 1 No. 8 Stock Corporation Law (AktG), the Executive Board is authorized with the approval of the Supervisory Board to acquire and dispose of its own shares up to a total amount of 10 % of the capital stock in existence on the date that the resolution is adopted. This resolution is effective from the date of the Annual General Meeting and ends at 12 midnight on 26 March 2020. The conditions for acquisition, appropriation and exclusion of subscription rights were explicitly regulated.

No portfolio of treasury shares was held on the balance sheet date. In the business year 2018/2019, no shares were purchased or sold.

7.10 Non-current provisions

The development of non-current provisions is shown in the following table:

in KEuros	01.10.2018	Utilization	Release	Addition	30.09.2019
Provision for personnel	2,249	-520	0	1,094	2,823
Provision for pensions IAS 19	845	-15	0	0	830
Total	3,094	-535	0	1,094	3,653

The non-current provisions for bonus payments relate to obligations arising from a management loyalty program. When the obligation was calculated, staff turnover was not taken into account because the company is assuming fulfilment of the contractual obligations.

The provision for pensions relates to KPS Consulting AG, Switzerland. It involves a so-called fully insured BVG Plan. This should be classified as a defined-benefit plan pursuant to IAS 19. Employees have the opportunity to draw the retirement pension entirely or partly as capital. Retirement age is 65 years (men) and 64 years (women). Other benefits for employees are not provided after the termination of the employment relationship. The benefit entitlements of the employees are partly covered by the plan assets. The plan assets are managed by the AXA Stiftung Berufliche Vorsorge (AXA Foundation for Occupational Pension Provision), Winterthur.

The AXA Stiftung Berufliche Vorsorge guarantees the coverage necessary under Swiss legislation. All risks such as disability or death are covered. The AXA Stiftung Berufliche Vorsorge identifies one of the main risks as notice of termination or non-extension of the retirement provision plan. In this case, KPS Consulting AG would have to change to another pension fund, which could result in the loss of part of the insurance cover or entail additional premiums.

The following table lists the disclosures required in accordance with IAS 19.

The valuation for pension provisions from defined-benefit pension plans is carried out in accordance with the Projected Unit Credit Method using actuarial methods. Alongside assumptions for life expectancy, this involved using the following underlying actuarial assumptions (VG 2015 GT was used for this purpose):

	2018/2019	**2017/2018**
1. Actuarial assumptions IAS 19.144		
Discount rate (DR) as at 01.10.	0.90 %	0.80 %
Discount rate (DR) as at 30.09.	0.00 %	0.90 %
Interest rate on retirement assets as at 30.09.	0.00 %	0.90 %
Future salary increases (SI) as at 30.09.	1.50 %	1.50 %
Future pension increases (PI) as at 30.09.	0.00 %	0.00 %
Future inflation as at 30.09.	0.50 %	0.50 %
Mortality tables	BVG2015 GT	BVG2015 GT
Date of the last actuarial valuation	30.09.19	30.09.18
2. Reconciliation of the cash value of defined benefit pension plans IAS 19.140		
Cash value from the defined benefit obligation as at 30.09	3,011	2,829
Capital value from plan assets as at 30.09	2,181	1,984
Deficit/(surplus) as at 30.09	830	845
Adjustment to upper limit	0	0
Net debt from defined benefit pension plans (assets) as at 30.09.	**830**	**845**
of which recognized as separate (asset)	0	0
of which recognized as separate liability	830	845
3. Components of defined benefit costs in the income statement IAS 19.140		
Current Service Cost (employer)	190	263
Past Service Cost	0	0
(Gains) and losses from plan compensation	0	0
Expenses from compounding of defined benefit obligations	26	23
Interest (income) from plan assets	-18	-15
Administrative costs plus costs for administration of plan assets	1	1
Components of the defined benefit costs recognized in the income statement	**200**	**272**
of which service and administrative costs	191	264
of which net interest on the net debt from defined benefit pension plans (asset)	8	8
4. Components of defined benefit costs in OCI IAS 19.140		
Actuarial (gain)/loss on the cash value of the defined benefit obligation	173	-160
Income from plan assets plus interest income	-288	-9
Change in assets of the upper limit plus interest expense/income	0	0
Income from income claims plus interest income	0	0
Other	0	0
Components of the defined benefit costs recognized in the OCI	**-115**	**-169**
5. Development of the net debt from defined-benefit pension plans (assets) IAS 19.140		
Net debt from defined-benefit pension plans (asset) as at 01.10	881	883
Components of the defined-benefit costs recognized in the income statement	200	272
Components of the defined-benefit costs recognized in the OCI	-115	-169
Contributions by the employer	-136	-140
Other	0	0
Components of the defined-benefit costs recognized in the OCI	**830**	**845**
6. Development of the cash value of the defined-benefit obligations IAS 19.140 (a), 19.141		
Cash value of the defined benefit obligation as at 01.10	2,951	2,687
Expenses of the cash value of the defined-benefit obligation	26	23
Current Service Cost (employee)	190	263
Contributions by plan participants	136	140
(Paid-out)/paid-in benefits	-466	-125
Administrative costs (plus costs for administration of plan assets)	1	1
Actuarial (gain)/loss on the cash value of the defined benefit obligation (settlement amount)	173	-160
Cash value of the defined benefit obligation as at 01.10	**3,011**	**2,829**
7. Components of actuarial gain/loss on obligations IAS 19.141		
Actuarial (gain)/loss on account of amendments to financial assumptions	367	-92
Actuarial (gain)/loss on account of amendments to demographic assumptions	-48	0
Actuarial (gain)/loss on account of expectancy value adjustments	-146	-69
Actuarial (gain)/loss from the cash value of the defined benefit obligation	**173**	**-160**

	2018/2019	**2017/2018**
8. Development of the capital value from plan assets IAS19.140 (a), IAS 19.141		
Capital value from plan assets as at 01.10	2,070	1,804
Interest income from plan assets	18	15
Contributions by the employer	136	140
Contributions by the plan participants	136	140
(Paid-out)/paid-in benefits	-466	-125
Other	0	0
Income from plan assets plus interest income	288	9
Capital value from plan assets as at 30.09.	**2,181**	**1,984**
8a. Actual income from plan assets		
Interest from income from plan assets	18	15
Income from plan assets plus interest income	288	9
Actual income from plan assets	**306**	**24**
9. Components of the economic benefit available IAS 19.141 (c)		
Economic benefit available in the form of a rebate	0	0
Economic benefit available in the form of a reduction in future contributions	8,161	5,277
Total economic benefit available	**8,161**	**5,277**
9a. Recognizable amount under IAS 19.64		
(a) Deficit/(surplus) in the defined benefit plan		
- Cash value of the defined benefit obligation	-3,011	-2,829
+ Fair value of the plan assets	2,181	1,984
Deficit/surplus (+ = asset value; - = liability)	-830	-845
(b) Upper limit, economic benefit available	8,161	5,277
Recognizable amount (lower than (a) and (b) if asset)	-830	-845
10. Estimate of the contributions from next year IAS 19.147 (b)		
Contributions by employees	132	135
Contributions by plan participants	132	135
11. Plan asset classes (non-listed price) IAS 19.142		
Cash and cash equivalents	3	0
Equity instruments	484	0
Debt securities	960	0
Real estate	564	0
Derivatives	0	0
Investment funds	0	0
Asset-backed securities	0	0
Structured debts	0	0
Other	170	1,984
Total interest income on the capital value (non-listed price)	**2,181**	**1,984**
of which own transferable financial instruments of the entity	0	0
of which ownership, which is used by the entity, or other assets which are applied by it	0	0
12. Sensitivity analysis IAS 19.145		
DBO = Cash value of the defined benefit obligation, SC = Service Cost (employer)		
DBO as at 30.09. with DR -0.25 %	3,174	2,968
DBO as at 30.09. with DR +0.25 %	2,862	2,700
DBO as at 30.09. with IR -0.25 %	3,000	2,782
DBO as at 30.09. with IR +0.25 %	3,063	2,879
DBO as at 30.09. with SI -0.25 %	2,978	2,802
DBO as at 30.09. with SI +0.25 %	3,045	2,859
DBO at as 30.09. with life expectancy + 1 year	3,063	2,869
DBO as at 30.09. with life expectancy - 1 year	2,960	2,788
SC of next year with DR +0.25 %	196	167
SC of next year with IR +0.25 %	219	188
13. Due-date profile of the cash value of the defined benefit obligation IAS 19.147		
Weighted average term of the cash value of the defined benefit obligation in years	20.7	18.8
Weighted average term of the cash value of the defined benefit obligation in years for active members	20.7	18.8
Weighted average term of the cash value of the defined benefit obligation in years for pensioners	n.a.	n.a.
14. Components of the cash value of the defined benefit obligation, broken down IAS 19.137		
Cash value of the defined benefit obligation as at 30.09. for active members	3,011	2,829
Cash value of the defined benefit obligation as at 30.09. for pensioners	0	0
Cash value of the defined benefit obligation as at 30.09. for suspended members	0	0

7.10.1 Other non-current liabilities

The other non-current liabilities amounted to 10,155 (previous year: 10,252) KEuros and include the following items:

in KEuros	2018/2019	2017/2018
Provisions for future earn-out payments	10,049	10,201
Valuation of financial derivatives	106	51
Total	10,155	10,252

7.10.2 Non-current financial liabilities

Non-current financial liabilities amount to 8,600 (previous year: 12,400) KEuros. These relate to loans to finance company acquisitions with a residual term of 3.5 years.

In the context of the loan agreement, KPS provided as collateral a declaration of commitment in relation to the shares in ICE Consultants Europe SL, Barcelona, Spain, Infront Consulting & Management GmbH, Hamburg, and KPS Digital Ltd., London, United Kingdom (formerly: Envoy Digital Ltd., London, United Kingdom).

7.11 Deferred tax liabilities

Deferred tax liabilities result from temporary differences between the tax balance sheet and the consolidated balance sheet and amounted to 1,669 (previous year: 2,214) KEuros.

7.12 Trade liabilities

Trade liabilities result primarily from purchased consulting services.

7.13 Financial liabilities

On the balance sheet date, liabilities to banks amounted to 8,805 (previous year: 8,800) KEuros with a residual term of up to one year.

7.14 Other provisions

The development of other current provisions is shown in the table:

in KEuros	01.10.2018	Utilization	Release	Addition	30.09.2019
Provision for personnel	7,940	-7,836	-16	9,297	9,386
Provision for outstanding accounts	347	-347	0	1,270	1,270
Provision for financial statements/audit expenses	188	-188	0	202	202
Other provisions	1,218	-1,086	-17	881	996
Total	9,694	-9,457	-33	11,650	11,854

The other provisions include all identifiable obligations to third parties where the amount or the due date is not yet certain. The expected due dates are short term.

The provision for personnel obligations relates to bonuses, outstanding vacation claims, and premiums due to the employers' liability insurance association.

The provision for outstanding invoices is based on payment obligations for services received for which the amount cannot be quantified on the balance sheet date for the financial statements.

The provision associated with costs for financial statements relates to expenses in conjunction with the preparation and auditing of the annual financial statements and the consolidated financial statements.

7.15 Other liabilities

The other liabilities amount to 17,197 (previous year: 12,534) KEuros and their development is shown in the following table:

	30.09.2019		30.09.2018	
in KEuros	up to 3 months	3 – 12 months	up to 3 months	3 – 12 months
Liabilities to employees	3,640	0	2,637	0
Wage and church taxes due	1,195	0	1,223	0
Liabilities for sales taxes and other taxes	2,212	0	1,347	0
Social security payments due	145	0	155	0
Earn-out Saphira Consulting A/S	0	547	0	547
Earn-out ICE Consultants Europe S.L.	1,984	1,830	1,984	1,827
Earn-out Infront Consulting & Management GmbH	2,370	1,.153	0	1,.107
Earn-out Envoy Digital Ltd.	1,066	1,039	676	935
Other liabilities	16	0	96	0
Total other liabilities	12,628	4,569	8,118	4,416

7.16 Liabilities from income tax

The tax liabilities amounting to 5,388 (previous year: 2,806) KEuros comprise liabilities for corporate income taxes amounting to 4,534 (previous year: 1,930) KEuros and liabilities from trade taxes of 854 (previous year: 877) KEuros. From the reporting year 2018/2019, all liabilities arising from income taxes have been recognized as such. In the previous year, liabilities not yet approved were recognized as tax provisions. The disclosure in the previous year was correspondingly adjusted.

7.17 Reporting on financial instruments

7.17.1 Information on financial instruments by categories

When financial assets and liabilities are received the management classifies them for purposes of valuation into one of the following categories irrespective of the type of asset or liability and their intended use:

- Financial Liabilities measured at Amortized Cost (AC)
- Financial Liabilities at Fair Value through Profit or Loss (FVPL)
- Fair Value through Other Comprehensive Income (FVOCI)

The following table shows the reconciliation of balance sheet items for the categories of financial instruments, grouped by the book values and fair values of financial instruments.

in KEuros		Valued at the fair value Book value	Valued at amortized cost Book value	Fair Value	Not within the scope of IFRS 7 Book value	Balance sheet items at the end of the business year
Current assets						
Future receivables from production orders		0	0	0	0	0
	(previous year)	(0)	(2,282)	(2,282)	(0)	(2,282)
Contractual assets		0	4,100	4,100	0	4,100
	(previous year)	(0)	(0)	(0)	(0)	(0)
Trade receivables		0	40,740	40,740	0	40,740
	(previous year)	(0)	(41,667)	(41,667)	(0)	(41,667)
Other receivables and financial assets		0	1,734	1,734	154	1,889
	(previous year)	(0)	(1,195)	(1,195)	(146)	(1,341)
Cash and cash equivalents		0	9,855	9,855	0	9,855
	(previous year)	(0)	(9,084)	(9,084)	(0)	(9,084)
Non-current liabilities						
Financial liabilities		0	8,600	8,600	0	8,600
	(previous year)	(0)	(12,400)	(12,400)	(0)	(12,400)
Other liabilities		10,156	0	0	0	10,156
	(previous year)	(10,252)	(0)	(0)	(0)	(10,252)
Current liabilities						
Financial liabilities		0	8,805	8,805	0	8,805
	(previous year)	(0)	(8,800)	(8,800)	(0)	(8,800)
Trade liabilities		0	10,523	10,523	0	10,523
	(previous year)	(0)	(10,912)	(10,912)	(0)	(10,912)
Other liabilities		9,439	4,351	4,351	3,407	17,197
	(previous year)	(6,529)	(3,435)	(3,435)	(2,570)	(12,534)

The financial assets and financial liabilities are broken down into the different classes of financial instruments in accordance with IAS 9 and IFRS 7. The valuation categories are also shown aggregated.

in KEuros	Category in accordance wirh IFRS 7 and IFRS 9	Book Value 30.09.2019	Fair Value 30.09.2019	Book value 30.09.2018	Fair Value 30.09.2018
Current assets					
Future receivables from production orders	AC	0	0	2,282	2,282
Contractual assets	AC	4,100	4,100	0	0
Trade receivables	AC	40,740	40,740	41,667	41,667
Other receivables and financial assets	AC	1,734	1,734	1,195	1,195
Cash and cash equivalents	AC	9,855	9,855	9,084	9,084
Non-current liabilities					
Financial liabilities	AC	8,600	8,600	12,400	12,400
Other liabilities	FVPL	10,156	10,156	10,252	10,252
Current liabilities					
Financial liabilities	AC	8,805	8,805	8,800	8,800
Trade liabilities	AC	10,523	10,523	10,912	10,912
Current other liabilities	AC	4,351	4,351	3,435	3,435
Current other liabilities	PVPL	9,439	9,439	6,529	6,529
Of which aggregated by valuation categories					
Financial Loans and Liabilities measured at Amortized (AC)	AC	56,430	56,430	54,228	54,228
Financial Liabilities at Fair Value through profit or loss	FVPL	19,595	19,595	16,781	16,781
Financial Liabilities measured at Amortized Cost	AC	32,279	32,279	35,547	35,547

Liquid funds, trade receivables, contractual assets, and other receivables primarily have short remaining terms. Their book values on the balance sheet date therefore correspond approximately to the fair value.

Similarly, trade liabilities and other liabilities generally have short terms. The values recognized on the balance sheet approximately represent the fair values.

The book values of the current financial assets correspond approximately to the fair values.

The following table shows the net gains and losses in accordance with IFRS 7.20:

in KEuros		from interest	from subsequent valuation: Fair value	Currency translation	Allowances	from disposal	Net result 2018/2019
Financial assets		0	0	-73	-670	0	-743
at Amortized Cost (AC)	(previous year)	(1)	(0)	(-203)	(324)	(-1,384)	(-1,262)
Financial liabilities measured		-366	18	0	0	0	-348
at Amortized Costs (AC)	(previous year)	(-315)	(-16)	(0)	(0)	(0)	(-331)
Financial liabilities at Fair Value		-605	-4,759	0	0	0	-5,364
through Profit or Loss (FVPF)	(previous year)	(-1,008)	(-1,141)	(0)	(0)	(1,112)	(-1,037)

In relation to financial instruments at amortized cost, the net gains or losses for loans and receivables include exchange rate differences, impairments, reversals, realized gains or losses on disposal, and subsequent receipts from written-down receivables.

The net gains or losses of other financial liabilities arise as a result of exchange rate differences, the derecognition of liabilities or from interest expenses or income arising out of the valuation at fair value.

Valuations are at fair value:

The other non-current and current liabilities reported at fair value are valued in accordance with the discounted cash-flow valuation method of hierarchy stage 3.

The value of the financial liabilities generally valued at fair value in stage 3 changed as follows during the year under review:

in KEuros	2018/2019	2017/2018
Opening balance	**16,781**	**1,112**
Total gains/losses	5,364	1,037
- Of which recorded in the income statement	5,364	1,037
- Of which recorded in other comprehensive income	0	0
Reclassifications	0	0
Additional acquisitions	0	14,632
Issues	0	0
Terminations	-2,547	0
Transfer from stage 3	0	0
Final balance	**19,598**	**16,781**

The fair value of the aforementioned financial liabilities in stage 3 was determined in accordance with generally accepted valuation principles based on discounted cash-flow analyses. A key parameter is the discount rate which takes into account the default risk of the counterparties.

The total losses recorded in the income statement during the business year include losses from the addition of earn-out liabilities amounting to 4,759 KEuros, interest expenses amounting to 550 KEuros and losses arising from the valuation of an interest swap amounting to 55 KEuros

7.17.2 Derivative financial instruments and hedging relationships

The KPS Group uses a derivative financial instrument in the form of an interest swap. Derivative financial instruments are only used to hedge existing underlying transactions and serve to reduce interest-rate risks. In the context of company acquisitions, KPS AG took out a long-term loan amounting to 20 million euros. An interest swap amounting to 10 million euros was concluded to hedge the interest-rate risks, which amounted to 6.2 million euros on 30 September 2019. In view of the term of the interest swap over a number of years, the fair value depends on a number of factors including the future development of EURIBOR interest rates. The valuation is carried out on the basis of market data on the valuation date and using generally recognized valuation models. On the balance sheet date, the fair value amounts to -106 KEuros and this amount is recorded under other liabilities.

If the prerequisites for the application of special regulations on hedge accounting in accordance with IFRS 9 are not met, the derivative financial instrument is recognized as a derivative without a hedging relationship. The resulting impacts on the income statement are shown in the table of net earnings from financial instruments.

7.17.3 Financial risk management

The KPS Group is exposed to financial risks as a consulting company. The risks are essentially differentiated as follows:

- Liquidity risks
- Credit risks / Default risks
- Market price risks

Controlling, monitoring and hedging of financial risks are within the remit of responsibility of the Executive Board, which is supported by the process owners in accounting. The objective is to identify risks at an early stage and to limit them by taking appropriate countermeasures.

Capital management is measured on the basis of net liquidity. The company management pursues the goal of achieving a continuous and sustainable increase in corporate value. The equity of the Group corresponds to the balance sheet equity. The ratio of the equity to the balance sheet total (equity ratio) amounts to 45.2 % as at 30 September (previous year: 46.5 %).

A minimum capital requirement (covenants) is defined in the long-term loan contract of KPS AG, which is calculated by the bank using a specified measurement method. Compliance with the covenants is regularly monitored within the framework of capital risk management. In the business year 2018/2019, the prescribed minimum capital requirement was complied with.

7.17.4 Liquidity risk

Liquidity risks can arise as a result of deterioration in operating business and as a consequence of credit and market risks. The KPS Group controls the liquidity risk based on short-term and long-term liquidity planning that takes into account existing credit lines. Liquidity management is continuously monitored. Cash pool agreements are arranged with domestic subsidiary companies of KPS AG through its principal banks. The KPS Group also has unused lines of credit which are available for an unlimited period of time.

The following table shows the contractually agreed (undiscounted) redemption payments of the primary financial liabilities:

Business year	Book value	Payment obligations		
in KEuros	30.09.2019	2019/2020	2020/2021 to 2022/2023	2023/2024ff.
Financial liabilities	17,405	8,805	8,600	0
Trade liabilities	10,523	10,523	0	0
Other liabilities	17,197	11,664	5,533	0
Liabilities from income tax	5,388	5,388	0	0

Previous year	Book value	Payment obligations		
in KEuros	30.09.2018	2018/2019	2019/2020 to 2021/2022	2022/2023ff.
Financial liabilities	21,200	8,800	11,400	1,000
Trade liabilities	10,911	10,911	0	0
Other liabilities	12,534	12,534	0	0
Liabilities from income tax	2,807	2,807	0	0

Liquidity planning is prepared for the individual months. The due dates of receivables and other assets are planned on the basis of agreed payment targets. Cash outflows are planned for the liabilities in accordance with the payment targets and the agreed due dates.

Date-certain liquidity analyses are carried out for the current month and the subsequent month and the planning is adjusted to the actual payment flows.

The following table shows the likely payouts arising from the interest swap for the subsequent periods:

30.09.2019 in KEuros	< 1 year	1 – 5 years	> 5 years
Interest swap	18	20	0
Total	18	20	0

30.09.2018 in KEuros	< 1 year	1 – 5 years	> 5 years
Interest swap	23	37	0
Total	23	37	0

7.17.5 Credit and default risks

KPS is exposed to a credit risk with the effect that the value of the assets could be impaired if customers or other debtors are unable to meet their obligations. The creditworthiness of individual customers or business partners with high order volumes is reviewed in order to minimize credit risks. When determining the recoverability of trade receivables, each change in the creditworthiness defining the payment target up to the balance sheet date is taken into account. The default risk of the Group essentially results from trade receivables. Appropriate risk provisions are formed to cover these financial assets.

A risk concentration for two European major customers pursuant to IFRS 8.34 is determined. The open receivables arising from this amount to 11,481 (previous year: 8,393) KEuros.

In operating business, receivables are monitored continuously. The impairment requirement is analyzed on every balance sheet date on the basis of the impairment matrix (see 7.5) in order to determine the expected credit losses. Furthermore, if notification of insolvency is received, receivables without any prospect of payment are impaired 100 % or in accordance with the notified insolvency ratio. This analysis revealed that there were no significant impairments in the reporting year 2018/2019. The default risk analysis is carried out as part of a multifactorial and holistic analysis of the debtor and the financial instrument. As part of the assessment as to whether there is a significant increase in the default risk, KPS makes use of a number of tools including individual qualitative factors that are presented in IFRS 9 and that indicate insolvency of the counterparty. On 30 September 2019, there were no indicators of any risks extending beyond the booked impairments. If any payment obligation is overdue by more than 30 days, the assumption of the significant increase in default risk needs to be refuted. This is carried out by verifications in the form of appropriate and robust information which verifies that it does not result from payment difficulties being experienced by the counterparty.

The following table shows the theoretical maximum default risk at gross book values:

Business year in KEuros	**Neither overdue nor impaired**	**Overdue and not impaired**	**Impaired**	**30.09.2019**
Contractual assets	4,100	0	0	4,100
Trade receivables	31,214	4,969	4,557	40,740
Other assets	1,889	0	0	1,889
Total	37,203	4,969	4,557	46,729

Previous year in KEuros	**Neither overdue nor impaired**	**Overdue and not impaired**	**Impaired**	**30.09.2018**
Contractual assets	2,282	0	0	2,282
Trade receivables	31,825	9,631	211	41,667
Other assets	1,342	0	0	1,342
Total	35,449	9,631	211	45,291

Nominal amounts for receivables due of 4,557 (previous year: 436) KEuros are included in the impaired receivables which were impaired by 526 (previous year: 211) KEuros.

The following table shows the due dates for gross book values of overdue, unimpaired financial assets:

Business year in KEuros	**less than 30 days**	**31 to 90 days**	**more than 90 days**	**30.09.2019**
Other loans	0	0	0	0
Trade receivables	4,757	328	4,441	9,526
Other assets	0	0	0	0
	4,757	**328**	**4,441**	**9,526**

Previous year in KEuros	**less than 30 days**	**31 to 90 days**	**more than 90 days**	**30.09.2018**
Other loans	0	0	0	0
Trade receivables	6,684	1,865	1,082	9,631
Other assets	0	0	0	0
	6,684	**1,865**	**1,082**	**9,631**

7.17.6 Market risks

>> Currency risks / Exchange rate risks
The companies of the KPS Group conduct their business transactions almost exclusively in euros, Danish krones, US dollars, British pounds, and Swiss francs. The business activities transacted in pounds sterling, US dollars and Swiss francs have so far only been of a limited nature. If the scope of business is extended there will consequently be exchange rate risks in future. Since the development of the Danish crown is very stable, disclosure of a sensitivity analysis relating to the Danish crown has not been prepared.

>> Interest risks
As far as necessary, the Group is financed with short-term current account credit lines which are available for an unlimited period of time. The interest rates are regularly adjusted by the creditor. Short-term loans have also been taken out with an agreed fixed interest rate for a limited period of time. The company acquisitions carried out in the course of the previous year were financed by floating a loan with variable interest rate and a total term of five years. The resulting risk of increasing interest rates was reduced to 50 % by an interest swap. In the case of the interest swap in place, the KPS Group swaps fixed and variable interest payments which are calculated on the basis of the agreed nominal amounts. The fair value of the interest swap is determined by discounting future payment flows using the interest structure curves on the reference date and the credit risk linked to the contract.

The interest risk in terms of a risk of change in market value is not regarded as relevant. The financial liabilities of the KPS Group are reported at amortized cost so that a possible change in market value is not reflected in the balance sheet. Furthermore, a hypothetical increase in the market interest level of 100 basis points would not have exerted a significant impact on the financial result from the unsecured portion of the long-term loan.

>> Price risks
A change in the risk parameters would not have exerted any significant effect on the fair value.

7.18 Contingent liabilities and other financial obligations

7.18.1 Contingent liabilities

In order to hedge current-account and money-market credit lines, KSP Services GmbH also has a further maximum liability guarantee amounting to 15,000 KEuros. On the balance sheet date, current-account and money-market credit liabilities amounted to 5,005 (previous year: 5,000) KEuros.

A subordination exists in respect of KPS Consulting AG, Zurich, amounting to KCHF 738.

KPS AG made a commitment for KPS Business Transformation GmbH, KPS digital GmbH, KPS Solutions GmbH, KPS Services GmbH and Infront Consulting & Management GmbH in the context of exemption in accordance with Article 264 Section 3 German Commercial Code (HGB) to guarantee all the existing obligations of these companies up to 30 September 2019 in respect of their creditors. This duty to assume liability is valid until 30 September 2020.

7.18.2 Financial liabilities

The following table shows the development of other financial liabilities:

Business year	30.09.2019				30.09.2018			
in KEuros	less than 1 year	1-5 years	more than 5 years	Total	less than 1 year	1-5 years	more than 5 years	Total
Vehicle leasing	1,073	713	0	1,786	1,143	1,009	0	2,152
Operating and business equipment leasing	1,032	1,290	0	2,322	678	487	0	1,165
Rent	2,618	9,082	14,390	26,090	2,996	8,054	15,084	26,134
Total	4,723	11,085	14,390	30,198	4,817	9,550	15,084	29,451

The leasing payments shown in the above table relate to future minimum leasing payments from leasing agreements.

Payments from rental and leasing relationships, which were recorded in the reporting period as expenses, amount to 3,965 (previous year: 3,720) KEuros.

7.19 Risks to continuing existence as a going concern

The KPS consolidated financial statements were prepared for the business year 2018/2019 under the premise of the continuing existence of the company as a going concern. In this connection, the management is assuming a positive forecast for continuing as a going concern so that the Group can continue its business activities while complying with its payment obligations during the current and subsequent business years. Risks for the continuing existence of the KPS Group as a going concern are not identifiable at the present point in time.

8 EXPLANATIONS FOR THE CASH FLOW STATEMENT

Cash flows during a business year are recorded in the cash flow statement in accordance with IAS 7 in order to present information about the movements of cash for the Group. The cash flows are differentiated in accordance with operating activity, and in accordance with investment and financial activity. The Group applies the indirect method to present the operating cash flow.

The cash position analyzed in the cash flow statement comprises all the current liquid funds reported in the balance sheet after deduction of current bank liabilities as part of the liquid funds. At the end of the period under review, this cash position amounts to 9,855 (previous year: 9,084) KEuros. At the end of the period under review, current bank liabilities amounted to 8,805 (previous year: 8,800) KEuros, non-current bank liabilities amounted to 8,600 (previous year: 12,400) KEuros.

The increased net liquidity compared with the previous year is primarily due to the net inflow from operating activities. The cash outflow on account of financial activity primarily results from the dividend payout in accordance with the resolution adopted by the Annual General Meeting held on 29 March 2019. Furthermore, a loan to finance the acquisitions made during the course of the past business year was partly repaid. The cash outflows for investments into long-term tied assets amounted to -5,948 (previous year: -24,882) KEuros. There were no acquisitions during the course of the business year and the cash outflow owing to investment activities consequently went down significantly. It primarily results from the earn-out payments for acquisitions from the previous year, and development work amounting to 2,449 (previous year: 2,832) KEuros carried out.

8.1 Inflow / outflow from operating activities

The cash flow from operating activities increased by 6,132 KEuros from 17,847 KEuros to 23,979 KEuros. This is due in particular to the increase in earnings for the period by 2,210 KEuros and the increases in provisions for earn-out payments amounting to 4,758 KEuros with no effect on cash flow included in earnings with no effect on income.

8.2 Inflow/outflow from investment activities

The cash flow on account of investment activities fell back by 18,934 KEuros from -24,882 KEuros to -5,948 KEuros during the course of the business year. Apart from investments made in development work carried out on intangible assets developed in-house, earn-out payments were made for company acquisitions during the business year.

8.3 Inflow/outflow from financial activities

The fall in cash flow on account of financial activities by 25,051 KEuros from 7,791 KEuros to -17,260 KEuros results primarily from the dividend payment amounting to 13,094 KEuros, furthermore no financial loans were taken out in the course of the business year.

The reconciliation in the following table shows the changes in liabilities from financial activities, including changes resulting from cash flows and non-cash changes:

			Cash			
in KEuros	01.10.2018	Cash	Additions	Changes in valuation	Other	30.09.2019
Acquisition price liabilities	16,730	-3,094	5,856	0	0	19,492
Interest-bearing liabilities	21,200	-3,795	0	0	0	17,405
Total	37,930	-6,889	5,856	0	0	36,897

			Cash			
in KEuros	01.10.2017	Cash	Additions	Changes in valuation	Other	30.09.2018
Acquisition price liabilities	1,560	-448	16,730	0	-1,112	16,730
Interest-bearing liabilities	0	21,200	0	0	0	21,200
Total	1,560	20,752	16,730	0	-1,112	37,930

A short-term money market loan in the amount of 5,000 KEuros recognized in cash and cash equivalents will be recognized in cash flow from financial activities in future, since these funds are allocated to financial activities. The cash flow statement was adjusted accordingly for 2017/2018.

9 OTHER EXPLANATIONS AND SUPPLEMENTARY INFORMATION

9.1 Auditor fees

Fees amounting to 142 (previous year: 173) KEuros for the services provided by the auditor Baker Tilly GmbH & Co. KG, Wirtschaftsprufungsgesellschaft, Munich, are recognized as expenses for services in connection with auditing the financial statements. The fees for services in relation to auditing the financial statements mainly comprise remuneration for auditing the consolidated financial statements and for auditing the financial statements of KPS AG and their domestic subsidiary companies. Fees for audit-related services or activities were only paid to Baker Tilly GmbH & Co. KG, Wirtschaftsprufungsgesellschaft, in the amounts indicated below.

Auditor fees

in KEuros	2018/2019	2017/2018
Services for auditing the financial statements	142	173
Other confirmation services	0	0
Tax consulting services	0	0
Other services	0	235
Total	142	408

9.2 Related parties

Related companies and persons (related parties) as defined in IAS 24 (Related Party Disclosures) are legal or natural persons which can exert an influence on KPS AG and its subsidiary companies or are subject to control or a significant influence by KPS AG or its subsidiary companies. “Related parties” as defined in IAS 24 are mainly regarded as the Executive Board and the Supervisory Board of KPS AG, and the shareholders of the company which exert a controlling or significant influence. The so-called managing partners of the Group are also included in the extended management circle in accordance with IAS 24 (Related Party Disclosures).

The payments of the members of the governance bodies of KPS AG are recorded in the information in the notes to consolidated financial statements Section 9.2.2 and 9.2.4 and in the compensation report in the Group Management Report.

KPS AG does not have any non-consolidated subsidiary companies, joint ventures and associated companies.

Transactions with members of the governance bodies of KPS AG are conducted at arms-length conditions that are common between independent third parties.

9.2.1 Existing shareholders of KPS Business Transformation GmbH

The existing shareholders of KPS Business Transformation GmbH have the following shareholdings and voting rights in KPS AG:

Michael Tsifidaris: 9,080,050 shares
(previous year: 9,080,050 shares); voting rights of approx. 24.27 % (previous year: approx. 24.27 %)

Dietmar Müller: 4,162,486 shares
(previous year: 4,162,486 shares); voting rights of approx. 11.13 % (previous year: approx. 11.13 %)

Leonardo Musso: 4,103,084 shares
(previous year: 4,103,084 shares); voting rights of approx. 10.97 % (previous year: approx. 10.97 %)

Uwe Grünewald: 4,052,390 shares
(previous year: 4,052,390 shares); voting rights of approx. 10.83 % (previous year: approx. 10.83 %).

The total remuneration of existing shareholders on account of existing contracts of employment with Group companies amounts to 1,800 (previous year: 1,799) KEuros in the year under review.

There were no receivables or payables in respect of existing shareholders in the business year or in the previous year.

9.2.2 Executive Board

Members of the Executive Board of KPS AG have the following shareholdings in KPS AG:

Mr. Leonardo Musso: 4,103,084 shares
(previous year: 4,103,084 shares)

The total compensation of the Executive Board reported as expenses amounted to 573 (previous year: 572) KEuros in the business year 2018/2019, of which variable components amounted to 240 KEuros. Compensation is comprised of fixed and variable components and they are due in the short term.

Mr. Leonardo Musso is a Member of the Executive Board in all companies of the KPS Group and a Member of the Administrative Board of KPS Consulting AG, Zurich, Switzerland.

9.2.3 Extended management circle

80 (previous year: 79) persons were members of the extended management circle on the balance sheet date.

All remuneration for the extended management circle relates to payments to employees due in the short term.

Total compensation amounting to 18,918 (previous year: 17,866) KEuros was paid to the extended management circle.

A provision amounting to 2,822 (previous year: 2,249) KEuros was set aside to cover expenses for future defined benefit claims on account of the function of Vice President introduced in the business year 2012/2013 in respect of five persons of the extended management circle.

9.2.4 Supervisory Board

The compensation for the Members of the Supervisory Board for their activities on the Supervisory Board amounts to 55 (previous year: 55) KEuros.

Mr. Tsifidaris and Mr. Grünewald have contracts of employment with KPS Business Transformation GmbH. The expenses for the business year 2018/2019 amounted to 1,228 (previous year: 1,227) KEuros and include fixed and variable compensation elements.

The compensation for the Administrative Advisory Board of KPS Consulting AG, Zurich, amounts to 0 (previous year: 7) KEuros.

9.2.5 Other related persons

A contract of employment was in place with Ms. Veronika König, daughter of Mr. Uwe Grünewald (Member of the Supervisory Board), in the business year. The expenses paid amounted to 99 (previous year: 96) KEuros.

9.3 Governance bodies of the company

9.3.1 Executive Board

The following person was appointed as a member of the Executive Board and authorized sole representative in the year under review:

Mr. Leonardo Musso, Member of the Executive Board KPS AG, Berg.

9.3.2 Supervisory Board

The Supervisory Board is unchanged from the previous year and comprises

Mr. Michael Tsifidaris (Chairman),
Authorized Signatory (Prokurist) KPS Business Transformation GmbH, Hamburg,

Mr. Uwe Grünewald, (Deputy Chairman)
Authorized Signatory (Prokurist) KPS Business Transformation GmbH, Münster,

Mr. Hans-Werner Hartmann,
Lawyer, Grassau-Mietenkam.

Mr. Uwe Grünewald is a Member of the Board of Directors of KPS Consulting A/S, Virum, Denmark.

9.4 Total compensation of the Executive Board and the Supervisory Board and loans granted

Please refer to our comments under 9.2.2 and 9.2.4 in relation to the compensation of the Executive Board and the Supervisory Board.

There were no loans to Members of the Executive Board and the Supervisory Board during the business year or in the previous year.

10 EVENTS AFTER THE BALANCE SHEET DATE

No events occurred between the balance sheet date and the date of preparation of the annual financial statements that require reporting.

11 CORPORATE GOVERNANCE

The Executive Board and the Supervisory Board of KPS AG submitted the Declaration of Compliance on the German Corporate Governance Code required pursuant to Article 161 Stock Corporation Law (AktG) and provided the shareholders with permanent access to the declaration on the company's website (www.kps.com).

12 NOTIFICATIONS PURSUANT TO ARTICLE 160 SECTION 1 NO. 8 STOCK CORPORATION ACT (AKTG)

A list of the notifications pursuant to Article 160 Section 1 No. 8 AktG Stock Corporation Law (AktG) is published in the Annual Report.

13 GROUP RELATIONSHIP / EXEMPTIONS PURSUANT TO ARTICLE 264 SECTION III, ARTICLE 264B GERMAN COMMERCIAL CODE (HGB)

KPS AG, Unterföhring, draws up consolidated financial statements as the ultimate parent company as at 30 September 2019. These are published in the German Federal Gazette (Bundesanzeiger).

The following companies are exempted from their obligation of drawing up, having audited, and publishing annual financial statements and a management report pursuant to Article 264 Section 3, 264b German Commercial Code (HGB):

- KPS Digital GmbH, Dortmund
- KPS Business Transformation GmbH, Unterföhring
- KPS Consulting GmbH & Co. KG, Unterföhring
- KPS Services GmbH, Unterföhring
- KPS Solutions GmbH, Unterföhring
- Infront Consulting & Management GmbH, Hamburg

Unterföhring, 23 January 2020

The Executive Board
Leonardo Musso

KPS Group

DEVELOPMENT OF THE FIXED ASSETS (GROSS PRESENTATION)

ITEM	ACQUISITION OR PRODUCTION COSTS					ACCUMULATED DEPRECIATION					BOOK VALUE	
in KEuros	01.10.2018	Additions	Disposals	Transfer	30.09.2019	01.10.2018	Additions	Disposals	Transfers	30.09.2019	30.09.2019	30.09.2018
I.) INTANGIBLE ASSETS												
1. Concessions, industrial property rights and similar rights and assets, and licenses in such rights and assets												
a.) if acquired	13,581	244	0	0	13,825	6,726	2,481	6	0	9,201	4,624	6,855
b.) if internally generated	10,632	2,449	0	0	13,081	1,297	729	0	0	2,026	11,054	9,335
2. Advance payments received	0	0	0	0	0	0	0	0		0	0	0
3. Goodwill	77,561	0	0	0	77,561	15,016	0	0	0	15,016	62,545	62,545
Intangible assets	101,774	2,693	0	0	104,467	23,039	3,211	6	0	26,244	78,223	78,735
II.) PROPERTY, PLANT AND EQUIPMENT												
1. Business and office equipment	3,351	314	61	0	3,604	2,353	527	61	0	2,819	785	998
2. Low-value assets	38	54	33	0	60	12	10	0	0	22	38	26
3. Advance payments made	0	830	0	0	830	0	0	0	0	0	830	0
Property, plant and equipment	3,389	1,198	94	0	4,494	2,365	537	61	0	2,841	1,653	1,024
III.) FINANCIAL ASSETS												
1. Shares in affiliated companies	0	0	0	0	0	0	0	0	0	0	0	0
Financial assets	0	0	0	0	0	0	0	0	0	0	0	0
Total assets	105,163	3,891	94	0	108,960	25,404	3,747	67	0	29,084	79,876	79,759

NOTIFICATIONS PURSUANT TO ARTICLE 160 SECTION 1 NO. 8 STOCK CORPORATION LAW (AKTG)

Pursuant to Article 33 Section 1 of the Securities Trading Law (WpHG), any shareholder who reaches, exceeds or falls below the thresholds of 3, 5, 10, 15, 20, 25, 30, 50 or 75 % of the voting rights of a company listed on the stock exchange must immediately inform the company and the Federal Financial Supervisory Authority (BaFin) of this, but at the latest within four trading days. As at 30 September 2018, the company was informed of the following shareholdings in accordance with Article 33 Section 1 Securities Trading Law (WpHG) and the shareholdings were published in accordance with Article 40 Section 1 Securities Trading Law (WpHG) (the corresponding percentage and voting-rights figures relate to the total number of voting rights at the time of the relevant notification and may therefore have changed in the meantime):

				Voting shares in percent (in absolute voting rights)			
Statutory notifier	**Date of the publica-tion in accord-ance with Article 40 WpHG**	**Date the threshold was reached**	**Reason for the notification**	**Art. 33 WpHG [1]**	**Art. 34 WpHG2 [2]**	**Art. 38 WpHG [3]**	**ARt. 39 WpHG [4]**
Grünewald, Uwe	04.01.2016	01.01.2016	End of the voting agreement (acting in concert) at the end of the day on 31.12.2015, falling below the thresholds of 75, 50, 30, 25, 20, 15 %	12.79 % (4,349,143)	–	–	12.79 %
Müller, Dietmar	17.10.2017	12.10.2017	Falling below the thresholds of 20. 15 %	10.46 % (3,912,486)	–	–	10.46 %
Musso, Leonardo	04.01.2016	01.01.2016	End of the voting agreement (acting in concert) at the end of the day on 31.12.2015, falling below the thresholds of 75, 50, 30, 25, 20, 15 %	12.92 % (4.,395,299)	–	–	12.92 %
Tsifidaris, Michael	30.06.2017	28.06.2017	Falling below the threshold of 25 %	24.27 % (9,080,050)	–	–	24.27 %
Krämerkämper, Dr. Thomas	30.01.2018	25.01.2018	Falling below the threshold of 3 %	1.06 % (395,323)	–	–	1.06 %
Allianz SE	17.01.2018	21.12.2017	Voluntary Group notification on account of internal restructuring	–	6.68 % (2,500,000)	–	6.68 %
Union Investment Privatfonds GmbH	18.09.2018	12.09.2018	Exceeding the threshold of 3 %	–	4.3 % (1,610,374)	0.39 % (144,435)	4.69 %

We refer to the disclosures relating to the voting-rights notifications received in the company register for further details.

[1] Share of the directly held voting rights
[2] Share of the attributed voting rights
[3] Share of the directly or indirectly held instruments which permit the acquisition of shares with voting rights
[4] Aggregation of voting rights and instruments

DECLARATION BY THE LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, financial position and results of operations of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Unterföhring, 23 January 2020
The Executive Board

ALTERNATIVE PERFORMANCE MEASURES FOR THE KPS GROUP

The Group Management Report and the financial statements of the KPS Group are drawn up in accordance with the applicable IFRS accounting standards. In addition to the disclosures and indicators required by these standards, KPS also publishes Alternative Performance Measures (APM) which are not subject to these regulations and for which there is no generally accepted reporting standard. KPS calculates the APMs with the objective of facilitating comparability of performance measures over time and in a sector comparison. This is carried out by making specific adjustments to the items in the balance sheet or income statement drawn up in accordance with the applicable accounting standards. The adjustments can emerge as the result of using different calculation and valuation methods, non-uniform business activities and special effects which exert an impact on the extent to which these items are informative. The Alternative Performance Measures determined in this approach apply for all accounting periods and they are used both within the company for managing the business and externally for assessing the performance of the company by analysts, investors and rating agencies. KPS calculates the APMs:

- Change in sales
- EBIT
- EBIT margin
- EBITDA
- EBIT (adjusted)
- Equity ratio
- Cash flow
- Operational cash flow
- Cash flow from investment activities
- Cash flow from financial activities

The **change in sales** is a relative indicator. It gives the percentage change in sales by comparison with the previous year.

EBIT (Earnings Before Interest and Taxes) represents earnings before the financial result and taxes and serves to present the operational result of a company without including the influence of effects from the international non-uniform taxation systems and different financial activities. EBIT is calculated as follows:

Reconciliation calculation EBIT

Earnings before income taxes
+ / - Financial result (financial income, financial expenses)
= EBIT

EBIT margin is calculated from EBIT in relation to sales.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) stands for earnings before interest, taxes, depreciation and amortization, impairment losses and reversals of impairment losses. This success indicator neutralizes the financial result and distorting effects on operating business activities that result from differing methods used for depreciation and amortization and flexibilities in measuring valuations. EBITDA is calculated on the basis of EBIT plus the depreciation and amortization and impairment losses affecting income or less the reversals of impairment losses on intangible assets and property, plant and equipment.

Reconciliation calculation EBITDA

EBIT
+ / - Depreciation and amortization / impairment losses / reversals of impairment losses on property, plant and equipment and intangible assets
= EBITDA

EBIT (adjusted) shows the development of the operating result without the influence of depreciation and amortization from merger and acquisition activities. When calculating this indicator, EBIT is increased by this depreciation and amortization.

Equity ratio shows how high the proportion of equity capital is in total capital.

$$\frac{\text{Equity}}{\text{Total capital}} \times 100$$

Cash flow shows the net inflow of liquid funds during an accounting period.

Operating cash flow shows the inflow of liquid funds from current business activities during an accounting period.

Operating cash flow

Earnings after income taxes
- non-cash income
+ non-cash expenses
= Operating cash flow

Cash flow from investment activities shows the payouts for the acquisition of fixed assets and the incoming payments from the disposal of fixed assets during an accounting period.

Cash flow from financial activities shows how investments were financed during a reporting period.

Cash flow from financial activities

Equity additions
- Dividend payouts
+ Additions from lenders (e.g. loans)
- Repayments on loans
= Cash flow from financial activities

TRANSLATION OF THE INDEPANDENT AUDITOR'S REPORT

To KPS AG, Unterföhring

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

Audit opinion

We have audited the consolidated financial statements of KPS AG, Unterföhring, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 30 September 2018, the consolidated statements of income and comprehensive income for the financial year from 1 October 2017 to 30 September 2018, the statement of consolidated changes in equity and the statement of cash flows for the financial year from 1 October 2017 to 30 September 2018, and the notes to the consolidated financial statements, including a summary of significant accounting and valuation policies. In addition, we have audited the group management report of KPS AG for the financial year from 1 October 2018 to 30 September 2018.

According to our assessment, based on the knowledge obtained during our audit,

- the accompanying consolidated financial statements comply, in all material respects, with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the supplementary requirements of German commercial law pursuant to § 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code], and give a true and fair view of the net assets and financial position of the Group as at 30 September 2018 and of its results of operations for the financial year from 1 October 2017 to 30 September 2018 in accordance with these requirements, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with the provisions of German legal requirements and appropriately presents the opportunities and risks of future development.

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

Basis for our opinion

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (EU) No 537/2014; referred to subsequently as "EU Audit Regulation" ("EU-Abschlussprüferverordnung", EU-APrVO) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group companies in accordance with the requirements of European and German commercial and professional law, and we have fulfilled our other German professional responsibilities. In addition, in accordance with Article 10 (2) (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 October 2017 to 30 September 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

From our perspective, the following matters were of most significance during our audit:

- impairment of goodwill
- impairment of deferred tax assets

We have structured our presentation of those key audit matters as follows:
Facts and key problems

- Audit approach and findings
- Reference to further information

In the following, we will present these key audit matters:

Impairment of goodwill

1. Goodwill amounting to EUR 62.5 million is recognized in the consolidated financial statements reported in the balance sheet under "goodwill" thus representing about 44 % of the balance sheet total. The company allocates the goodwill to the relevant groups of cash generating units (CGU). Goodwill is assessed for impairment annually at the balance sheet date or as required by the company ("impairment test"). Basically, determined value in use is compared there to the carrying amounts of the respective group of CGUs. The basis for these assessments is regularly the cash value of future estimated cash flows of the CGU, to which the respective goodwill is attributable. The assessments are based on the forecast figures of the individual CGUs, depending on the management's approved financial planning. The discounting is made by means of the weighted average cost of capital (WACC) of the individual CGU. The result of that assessment is highly dependent on the legal representatives' estimates of future cash flows as well as on the discounting interest rate adopted and therefore subject to significant uncertainties. Hence, we consider that issue as a matter of most significance within our audit.

2. To address this risk, we have critically questioned the management's assumptions and estimates and performed inter alia the following audit procedures:

   - We reproduced the methodical approach for performing the impairment tests and evaluated the WACC calculation.

   - We made sure that the future estimated cash flows underlying the assessments and the discounting interest rates adopted are, as a whole, an appropriate basis for the impairment test of the individual CGUs.

   - For our assessments we balanced inter alia general and sector-specific market expectations as well as extensive explanations of the management on the key value drivers of the planning and also relied on a comparison of those data with the current budgets of the planning approved by the Supervisory Board.

   - Knowing that even little changes of the discounting interest rate may have major effects on the value in use established in this way we followed up the parameters used for determining the adopted discounting interest rates including the Weighted Average Cost of Capital (WACC) and retraced the company's calculation schedule.

   - In addition, we performed further sensitivity tests for selected CGUs in order to be able to evaluate a potential impairment risk of a change deemed possible in an essential assumption of the assessment. The selection was based on qualitative aspects and the amount of surplus of the respective carrying amount by the value in use.

We found that the respective goodwill and the carrying amounts of the relevant groups of CGUs, as a whole, are covered at the balance sheet date by the discounted future cash flows.

3. The company's disclosures on goodwill are included in item 7.2 of the Notes.

Impairment of deferred tax assets

1. KPS AG exhibits deferred tax assets totaling EUR 4.8 million in its consolidated financial statements under "deferred tax assets", thereof EUR 3.9 million deferred tax assets due to tax loss carryforwards.

   Deferred tax assets are recognized to the extent to which, according to the estimates of the legal representatives, it is probable that in the foreseeable future taxable profit will be available against which the deductible temporary differences and unused tax losses can be offset. For this purpose, forecasts on future tax results are established which result from the adopted forecast figures. For the calculation of deferred taxes, the tax rates of future years are used, as far as they are already fixed by law or the legislative process is basically completed. In our opinion those matters were of most significance because they are highly dependent on the estimates and assumptions made by the legal representatives, and are subject to uncertainties.

2. To address this risk, we critically questioned the management's assumptions and estimates and performed inter alia the following audit procedures:

   - Involvement of internal experts from the field of tax accounting in our audit team in the context of our audit of tax issues.

   - Obtaining an understanding of the management's concept of the accounting process of deferred taxes.

   - Evaluation of recognition and measurement of deferred taxes.

   - Assessment of the impairment, as far as there were not enough deferred taxes, on the basis of the tax planning calculation of the legal representatives and valuation of the adequacy of the planning basis applied.

On the basis of our audit procedures we were able to reproduce the assumptions made by the legal representatives concerning recognition and measurement of the deferred taxes and obtain assurance of their adequacy.

3. The company's disclosures on the deferred taxes are comprised in item 7.3 and 6.9 of the Notes.

Other information

The legal representatives are responsible for the other information as set out below:

- *Letter from the Executive Board, KPS: We are shaping the digital transformation and KPS on the capital market* in the section entitled "To the Shareholders" in the Annual Report 2018/2019,

- The Responsibility Statement in Section 7 of the Group Management Report 2018/2019,

- The Compliance Statement in Section 7 of the Group Management Report 2018/2019,

- Non-financial Declaration in Section 7 of the Group Management Report 2018/2019

- Declaration by the Legal Representatives,

- Alternative performance indicators used in the KPS Group in the Annual Report 2018/2019.

The Supervisory Board is responsible for the following other information:

- Report by the Supervisory Board in the section entitled "To the Shareholders" in the Annual Report 2017/2018.

Our audit opinion on the consolidated financial statements and the group management report do not cover the other information and, consequently, we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, 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, the group management report or our knowledge obtained in the audit, or
- Otherwise appears to be materially misstated.

Responsibilities of the legal representatives and the Supervisory Board for the consolidated financial statements and the group management report

The legal representatives and the Supervisory Board are responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the supplementary requirements of German law pursuant to § 315e (1) HGB, for the preparation of consolidated financial statements that give a true and fair view of the net assets, financial position and results of operations of the Group in compliance with these requirements. In addition, the legal representatives are responsible for such internal control as they determine 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 legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting on a going concern basis, unless the management either intends to liquidate the Group or to cease operations, or has no realistic alternative to this course of action.

Furthermore, the legal representatives are responsible for the preparation of the group management report that, as a whole, provides a true and fair view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with the provisions of German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides a true and fair view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and accurately presents the opportunities and risks of future developments, as well as to issue an independent auditor's report that includes our audit opinion on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement 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 and the group management report.

Furthermore, we exercise professional judgement and maintain professional skepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit 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 of the consolidated financial statements and of arrangements and measures relevant to the audit of the group management report in order to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of accounting estimates and applicable disclosures made.

- Conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and the group management report or, if such disclosures are inadequate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that achieves a true and fair view of the net assets, financial position and results of operations of the Group in compliance with IFRSs as adopted by the EU and the supplemental German Legally Required Accounting Principles pursuant to § 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with the legal provisions and the view of the Group's position is provides,

- Perform audit procedures on the forward-looking statements presented by the legal representatives in the group management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the forward-looking statements, and evaluate the proper derivation of the forward-looking statements from these assumptions. We do not express a separate audit opinion on the forward-looking statements and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the forward-looking statements.

We communicate with those charged with governance on matters including the planned scope and timing of the audit, and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and communicate with them all relationships and other matters that may reasonably be expected to affect our independence, and where applicable, the applied safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe each key audit matter in our auditor's report unless laws or regulations preclude public disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Article 10 of the EU Regulation

We were appointed as auditor of the consolidated financial statements by the Annual Shareholders' Meeting on 29 March 2019. We were engaged by the Supervisory Board on 25 September 2019. We have been the auditor of KPS AG without interruption since the audit of the consolidated statements for the financial year 2015/2016.

We declare that the audit opinion expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

RESPONSIBLE AUDITOR

The German Public Auditor responsible for the engagement is Joachim Weilandt.

Munich, 23 January 2020

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

Frank Stahl Wirtschaftsprüfer [German Public Auditor]	Joachim Weilandt Wirtschaftsprüfer [German Public Auditor]

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