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OVERVIEW OF THE CONSOLIDATED RESULTS

in EUR million	2021/2022	2020/2021
Group sales	179.5	158.0
EBITDA	21.7	21.6
EBIT	14.3	13.4
Group earnings	9.5	8.7
Earnings per share (in EUR)	0.26	0.23
Cash and cash equivalents	6.1	8.1
Financial liabilities	21.0	21.3

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TO THE SHAREHOLDERS



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THE CEO OF KPS

Ladies and Gentlemen, Dear Shareholders,

In the past financial year, KPS experienced a significant revival in demand along the entire value chain. We were able to increase our sales by 13.6% to EUR 180 million. All areas – strategy consulting, e-commerce solutions and transformation projects - showed pleasing growth. In our domestic market of Germany, we managed to turn the tide and achieved an increase in sales of around eleven percent. In our foreign target markets, the business situation remained robust in financial year 2021/2022. We were able to increase our sales in our European target markets by nearly 17%. European sales (ex Germany) now account for 58% of Group sales. We have thus persistently and successfully implemented our internationalisation strategy, because only a few years ago we did not generate any significant sales contributions abroad.

Due to the significantly higher project volume, the use of service providers and freelancers has increased. At the same time, we have increased the number of our employees in order to be prepared for future growth. In addition, KPS Group was unable to escape the general trend towards salary increases, particularly for IT and software staff. Despite these factors, EBIT increased by around 6.7 percent to EUR 14.3 million and earnings after taxes rose by 9.4 percent.

The appalling Russian war in Ukraine is causing indescribable human suffering and senseless loss of life. Negative economic effects sometimes appear to be secondary. KPS does not maintain business relationships in either Russia or Ukraine. We also have no near-shore locations or contracts in these countries. The effects were hardly noticeable on the demand side in the past financial year. However, the risk situation for KPS has increased. Exorbitantly rising energy costs, general price increases and a slowdown in the economy are weighing on consumption and could impair willingness to invest in transformation projects.

Although the conditions for the new financial year 2022/2023 have clouded over, we are optimistic about the future. With our products, our expertise in digital transformation and our international orientation, we see ourselves well equipped to successfully master the challenges. In financial year 2022/2023, we expect to see an increase in sales in the mid-single-digit percentage range compared to 2021/2022. For EBITDA, we forecast growth in the high single-digit to low double-digit percentage range.

We would like to thank you for your trust and would be delighted to have you continue to accompany KPS on its journey into the future.

Munich, January 2023

Your Executive Board

Leonardo Musso

THE KPS SUPERVISORY BOARD

Dear Shareholders,

The Supervisory Board provides information on its activities during financial year 2021/2022 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 showed great commitment in carrying out all the functions allocated to it under the legal regulations and the company statutes. During the past financial year, it engaged intensively with the situation and prospects of the company, and with a variety of specific issues in the course of discussions at ordinary meetings of the Supervisory Board and many informal meetings with the Executive Board, as well as other members of management and employees. The management of the Executive Board was monitored conscientiously on a regular basis. 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 monthly reports of the Executive Board, the regular working meetings of the Audit Committee in cooperation with the Finance Director and regular personal and telephone meetings served as the basis for monitoring developments and providing advice.

Fundamental and regular focus issues addressed by the Supervisory Board included a continuous review of the market and how the company's business was developing and the various advisory segments, the rolling planning for the company, its finances and investments, the risk position, the company's risk controlling system and matters relating to the Executive Board. In particular, the ongoing management of the crisis and the steering of the appropriate task forces triggered by further waves of the coronavirus pandemic characterised the past several months. As the Chairman of the Supervisory Board, I would like to take this opportunity to thank all the Members of the Supervisory Board, the Chief Executive Officer, managers, and not least the company's employees for successfully mastering this exceptional situation.

Over the course of financial year 2021/2022, the Executive Board regularly kept the Supervisory Board informed by providing prompt and comprehensive reports on issues relevant to the company relating to planning, business development, the risk position, strategic measures, as well as 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 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 deviations in business performance relate in particular to the measures for overcoming the new waves of the coronavirus. 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 properness of how the business was managed.

Important measures by the Executive Board were only implemented after discussing them with the Supervisory Board and receiving subsequent approval 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 related to the business situation and significant business transactions, and was always immediately informed of such matters.

Besides many informal meetings, telephone calls and video conferences, the Supervisory Board convened for a total of seven official meetings in financial year 2021/2022. The members of the Supervisory Board and the Chief Executive Officer attended the Supervisory Board meeting on 18 May 2022 in person. All the other Supervisory Board meetings were held in the form of videoconferences for health and safety reasons.

The course of the past periods and the current business situation were examined at each of the meetings; the measures of the updated development in connection with the corona crisis and individual segments with negative plan deviations were discussed in detail, as were opportunities for company acquisitions.

The audit priorities and the course of the audit for financial year 2020/2021 were discussed with the auditor at the meetings held on 12 November 2021 and 16 December 2021. The status of planning for financial year 2021/2022 was also reviewed.

At the meeting held on 14 January 2022, the Declaration of Compliance with the German Corporate Governance Code was reviewed and the Chairman of the Supervisory Board was granted the power to sign the document. The auditors and the Executive Board then presented the provisional Annual Financial Statements, including the Management Report, the audited Consolidated Annual Financial Statements and Group Management Report of the company, in each case for financial year 2021/2022, along with the respective audit reports. They reported on the key results and focuses of the audit examination. The Supervisory Board resolved to approve the Annual Financial Statements at a special meeting. The contractual situation relating to the expiry of the contract of the Chief Executive Officer on 31 December 2021 was then discussed with a view to a contractual extension. The Audit Committee was also set up and its chairman elected.

On 19 January 2022, the Annual Financial Statements along with the Management Report and the Consolidated Financial Statements including the Group Management Report were approved for financial year 2020/2021 and the Report of the Supervisory Board was also adopted for financial year 2020/2021. The Executive Board then reported on the economic development in the first quarter of financial year 2021/2022.

In the Supervisory Board meeting held on 16 March 2021, the Supervisory Board first approved the changes to the (fiscal) structure of the Group. In light of the current situation with the coronavirus, the modalities for holding a virtual general meeting again were then decided on. The invitation and the agenda for the Annual General Meeting were then presented by the Executive Board and approved by the Supervisory Board.

The Supervisory Board meeting on 18 May 2022 dealt with the course of the Annual General Meeting held on that day, the half-year results explained by the Executive Board, the tasks of the Audit Committee in financial year 2021/2022 and the bonus and target agreement for the Executive Board. No further resolutions were passed.

In the last meeting of the Supervisory Board on 22 September 2022, the Supervisory Board dealt with the development of the company, including its organic and inorganic growth strategy. In addition, the earnings situation for the current financial year and the effects of inflation on daily rates for customers and salary developments for employees were discussed.

Self-assessment:

The Supervisory Board regularly reviews how effectively it carries out its functions. The self-assessment focuses in particular on 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 self-assessment 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 various exceptions that are related to the size of the company. The

Executive Board and the Supervisory Board regard the Code as an important step towards transparency, Corporate Governance, and control. On 15 January 2022, 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 for the year 2022 pursuant to Article 161 of the Stock Corporation Act (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 topic of the regular discussion and review at this meeting.

Composition of the Supervisory Board:

The following persons were Members of the Supervisory Board during the entire financial year 2021/2022:

Mr Michael Tsifidaris, Chairman

Mr Hans-Werner Hartmann, Deputy Chairman

Mr Uwe Grünewald

Mr Hans-Werner Hartmann is a member of the Supervisory Board who has expertise in the areas of accounting and auditing of financial statements pursuant to Section 100, paragraph 5 of the Stock Corporation Act (AktG). He was elected Chairman of the Audit Committee until the next Supervisory Board is elected. All members of the Supervisory Board are familiar with the industry the company is active in.

In the view of the Supervisory Board, an independent member of the shareholders on the Supervisory Board is appropriate pursuant to Recommendation C.6 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 must disclose any conflicts of interest to the Supervisory Board. However, no such conflicts of interest occurred in the year under review.

Annual and Consolidated Financial Statements for 2021/2022:

The auditing firm Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Munich, appointed as auditor of the Annual Financial Statements and the Consolidated Financial Statements by the Annual General Meeting held on 18 May 2022, audited the bookkeeping, the Annual Financial Statements of KPS AG, and the Consolidated Financial Statements, including the Management Reports for financial year 2021/2022 and granted each of the documents in each case an unqualified audit opinion. There are no doubts as to 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 reported in detail on the result of the audit; the complete Annual Financial Statements of the Group and all subsidiaries as well as the report on the audit of the Consolidated Financial Statements and the audit of the individual financial statements of KPS AG were available. The auditor was also able 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 13 January 2023 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 discussions with the auditor of the financial statements. The Supervisory Board approved the Annual Financial Statements of KPS AG and the Consolidated Financial Statements drawn up by the Executive Board, including the Management Reports, on 13 January 2023. The Annual Financial Statements of KPS AG are thus adopted. The Report by the Supervisory Board for financial year 2021/2022 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 exceptional commitment over the past financial year, which was strongly affected by the coronavirus pandemic.

The Supervisory Board

Michael Tsifidaris

Chairman of the Supervisory Board

KPS ON THE CAPITAL MARKET IN 2021/2022

Price performance in the reporting period (1 October 2021 to 30 September 2022)

The KPS AG share recorded a decline of 38.1% overall in financial year 2021/2022 (period from 1 October 2021 to 30 September 2022). The DAX and STOXX50 indices recorded a loss of 20.1% and 17.8% in the reporting period from 1 October 2021 to 30 September 2022. The TecDAX was down 27.3% in the comparison period and the SDAX recorded a decline of 35.7%.

The KPS share started trading at EUR 4.85 on 1 October 2021 and reached its high of EUR 4.90 on 8 October 2021. From mid-November, the share then declined to a level of EUR 4.00 by the end of 2021.

The KPS share again recorded a slight upward trend at the beginning of 2022. After the start of the Russia-Ukraine war, the performance of the KPS AG share was noticeably influenced by the resulting macroeconomic effects in the months that followed, which initially caused the share to move downwards. This market sentiment was also reflected in the high average losses in the SDAX and TECDAX indices from the start of the Russia-Ukraine war.

After the share recovered briefly, it levelled off at the EUR 4 mark in the months from May to September. The closing price of the share on 30 September 2022 was EUR 3.00 and thus, like the development of virtually all indices, reached the lowest point in the period under review.

The average daily trading volume of the KPS share was 8,445 shares in the reporting period (previous year: 17,026 shares). On 30 September 2022, the market capitalisation of KPS AG was EUR 112.2 million on the basis of 37,412,100 shares in circulation.

Key data for the share of KPS AG

Sektor	Software (IT-Services)
ISIN	DE000A1A6V48
Securities Identification Number (WKN)	A1A6V4
Ticker symbol	KSC
First listing	14 July 1999
Number and type of shares	37,412,100 registered shares (without nominal value)
Capital stock	37,412,100.00 Euro
Stock exchanges	Frankfurt, Stuttgart, Hamburg, Berlin-Bremen, Duesseldorf and Munich, XETRA
Market segment	Regulated market
Transparency level	Prime Standard
Designated Sponsor	Hauck und Aufhaeuser Bank AG

Overview of the share (XETRA, Intraday)

Opening price (1 October 2021)	4.85
High (8 October 2021)	4.9
Low (30 September 2022)	3.0
Closing price (30 September 2022)	3.0
Trading volume (1 October 2021 to 30 September 2022, average trading volume)	8,445.00
Market capitalization (30 September 2022)	112.2

Shareholder structure

Information based on the voting rights notifications received in accordance with the Securities Trading Act, WpHG (status: 28 January 2018) and company information; Free float according to the definition of the German Stock Exchange with shares in the share capital of less than 5%.

The shareholder structure of KPS AG was as follows on 30 September 2022: The Chairman of the Supervisory Board, Michael Tsifidaris, held 24.3% of the shares in the company. The Supervisory Board member Uwe Grünewald held 10.8% of the share capital entitled to voting rights. Chief Executive Officer of KPS AG, Leonardo Musso, held 11.0% of the shares in the company. This means that 46.1% of the voting shares are held by the Executive Board and the Supervisory Board of KPS AG.

As of 30 September 2022, a private investor still held 10.2% of the voting rights. In addition, Allianz had a shareholding of 6.7% on the reporting date. Accordingly, free float amounted to 37.0% of the shares.

Annual General Meeting relating to financial year 2020/2021

The ordinary Annual General Meeting of KPS AG on the company's performance in financial year 2020/2021 was held as a virtual event on 18 May 2022. The virtual format was selected in order to avoid health risks in connection with the COVID-19 pandemic pursuant to the Act on Measures in Corporate, Cooperative, Association, Foundation and Residential Property Law to Combat the Effects of the COVID-19 Pandemic (Gesetz über Maßnahmen im Gesellschafts-, Genossenschafts-, Vereins-, Stiftungs- und Wohnungseigentumsrecht zur Bekämpfung der Auswirkungen der COVID-19-Pandemie) (Art. 2 of the Act on the Mitigation of the Consequences of the COVID-19 Pandemic in the Areas of Civil, Insolvency and Criminal Procedure, Federal Act Gazette (BGBl.) I 2020, p. 569), last amended by the law to further shorten the residual debt discharge procedure and to adapt pandemic-related regulations in company, cooperative, association and foundation law as well as in tenancy and lease law of 22 December 2020 (BGBl. I 2020, p. 3328), ("COVID-19 Law").

The shareholders approved the management's proposal for a balanced dividend policy. From the consolidated profit of EUR 8.7 million reported in the 2020/2021 Annual Report, EUR 7,108,299.00 or EUR 0.19 per share was distributed to the shareholders.

A dividend of EUR 7.1 million corresponds to a payout ratio of 81.6% of Group earnings. A dividend return of 3.9% was calculated for the last financial year based on the opening price of EUR 4.85 on 1 October 2021, taking the dividend paid of EUR 0.19 per share into account.

Financial calendar

26.01.2023	Publication of the figures in the annual financial statements 2021/2022
09.02.2023	Publication of the figures for the first quarter 2022/2023
08.05.2023	Publication of the figures for the half-year 2022/2023
10.05.2023	Ordinary Annual General Meeting in Munich
27.07.2023	Publication of the figures for the third quarter 2022/2023

Analysts' research

The development of the KPS share was constantly analysed by Warburg Research during the period under review. There were also publications by Hauck & Aufhäuser, Berenberg and Quirin Privatbank.

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 financial year 2021/2022. The company published disclosures immediately to institutional investors, financial analysts, and private shareholders on the current development of the business and important events for the development of the company's share price.

Besides publishing 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-year and annual figures. Direct dialog with investors and analysts was also continuously maintained by participating in several conferences in the reporting period. These participations included the GBC Capital Markets Conference, the Pareto Conference, the German Equity Forum and, last but not least, the German Corporate Conference in Munich.

In addition, the management of KPS was and has remained in contact with the market participants and continues to strive to carry out further IR activities beyond the legal obligations.

Hauck & Aufhäuser Bank 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.

Further information is available to interested investors in the Investor Relations section of the homepage at <https://www.kps.com/de/de/company/investor-relations.html>.

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1. FUNDAMENTALS OF THE GROUP

1.1 Business model and methodological expertise

Companies are exposed to innovation, technological change and changing customer behaviour at various levels and in many areas.

In order to be able to compete, it is important to react to technological change and adapt to changing customer behaviour with a tailor-made digitalisation strategy. With a proactive digitisation strategy, companies can actively shape change, use it positively for their overall strategy and achieve competitive advantages.

A digitalisation strategy means developing a strategy in order to achieve holistic digitalisation for key company and business processes and to transform the system landscape of the company appropriately in accordance with the digitalisation strategy developed. Products, consulting expertise, services and solutions for the challenges of the digital transformation of business processes form the core of the KPS business model.

KPS has specialised in providing its customers with advice on strategic, process, application and technology issues relating to the digital transformation, and supporting them in rolling out and implementing solutions. It delivers holistic industry-specific and turnkey solutions with products from standard software manufacturers such as SAP, Hybris, Adobe and Intershop. KPS has developed industry-specific solutions in the form of platforms that can be deployed instantly in many cases.

In doing so, KPS follows an integrative, so-called end-to-end or one-stop-shop approach that includes the entire range of services along the value chain: classic merchandise and branch management, finance, B2B and B2C commerce in addition to digital customer management in marketing and sales.

Over a period of many years, KPS has developed its own dedicated project management method “KPS Rapid Transformation” for fast and efficient realisation of customer projects. The company has developed the method even further into its “Instant Platforms” product family.

The methods and platform products of KPS are based on the core belief that digital transformation projects can often best be implemented if many sub-tasks and sub-projects are started in parallel and at the same time. This method allows transformation projects to be rolled out while the company continues with its normal operations. In addition, standard software stacks from the technology partners of KPS are used. 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 between strategy, process, and implementation can be circumvented and avoided in the software solution. This enables complexity and risks to be reduced and project runtimes to be shortened.

KPS has developed the method further with its Instant Platforms and transferred the concept to turnkey platforms that are specially tailored to various industries such as Food, Fashion and Grocery. For the first time, the platforms combine an “end-to-end” approach within a single product. KPS markets the platforms under the “Instant Transformation” label. KPS’s business model is directed towards future marketing of the turnkey platforms to offer companies digitalisation solutions that can be deployed immediately. Furthermore, customer requirements can be rolled out quickly and made a reality with the “Instant Transformation” method.

1.2 Strategy

KPS’s strategy is based on the three mainstays of internationalisation, innovation, and industrialisation.

In financial year 2021/2022, the international contribution to sales was EUR 104.6 million (previous year: EUR 90.4 million) and corresponded to 58.3% (previous year: 57.2%) of Group sales. The international

share of Group sales increased again. KPS thus underscores the successful implementation of its internationalisation strategy.

Besides internationalisation, the pillars of innovation and industrialisation are top priorities at KPS.

The technology teams at KPS are continually engaging with the latest technological developments and analyse how these can be implemented by customers as efficiently as possible. The focus on innovation ensures that KPS is able to advise its customers on the basis of the latest technological standards.

The concept of industrialisation: KPS has developed turnkey, instantly deployable platforms for various industries. These platforms empower companies to put their digitalisation on the most advanced technological footing very quickly. The concept of industrialisation is based on the idea that companies within an industry require similar digitalisation solutions. The industry platforms for digital transformation provide companies with a product that integrates all processes end-to-end. At the same time, the platforms can be tailored to individual customer requirements and be adapted to meet specific customer demands.

In the world of classical consultancy, specific project teams are formed for each customer. Generally speaking, these teams develop and roll out solutions at the customer's site. The individual modules of strategic advice, conceptual development, implementation, and handover are often commissioned from different management consulting firms. With its platform-based "Instant Transformation" approach, KPS follows its own approach, which is contrary to the classic approach. This involves innovative, standardised technological concepts and process chains being developed at the KPS Design Centres. They are then combined on the platforms so that the technologies can be used for a number of projects. As a result, this approach yields several advantages for the customers and employees of KPS. First of all, project runtimes can be shortened significantly if existing process chains can be used. Secondly, parts of the project can be realised on the premises of KPS instead of at the customer's site. This reduces the resource input for projects.

1.3 Customer structure

Last year, KPS Group further consolidated its position as a leading-edge management consulting firm for retail and the consumer goods industry. At the same time, the company vigorously expanded its expertise in other industries. KPS 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 also includes energy utilities and public sector companies, as well as industrial businesses and engineering companies in B2B business. In addition, KPS has strongly internationalised its customer structure in recent years.

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

1.4 Consulting 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 constitutes the enabler for successfully overcoming highly complex challenges.

A customised approach and business management in real time require a fundamental change in operational and cultural mind set across the entire organisation. In the global market for consultancy and

service packages, the implementation of digital business models with innovative IT technologies is often vital to a company's long-term success.

KPS Group 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 delivers end-to-end process chains integrated on industry-specific digital platforms and tailored to the customer's needs. These chains are implemented using the respective technologies. KPS also advises its customers on the necessary change management right from the start. In production operation, KPS assists its customers with application and site management, as well as support.

The experts at KPS have the knowledge, experience and industry background that is required for this role, and this leading edge is safeguarded by continuous investments in tools, people and technologies. In their work, KPS consultants and specialists always take the international and technological needs of our customers into account. 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.

KPS pursues an "end-to-end" approach, i.e. all important stages of the value chain are covered: Digital Strategy, Digital Customer Interaction, Digital Enterprise. In the area of digital strategy, we advise our customers on all aspects of strategic alignment. With our Digital Customer Interaction Services, we help companies improve their relationships with their end customers, gain market share and increase sales. The focus is particularly on improving the performance of the e-commerce shops: Greater reach, better customer conversion, increased customer satisfaction, higher sales. Digital Enterprise includes the complete range of services in the area of ERP and digital transformation of business processes.

1.5 Research and development

KPS invests in the area of research and development, and this is mainly directed towards improvements in the technical integration of different software platforms, such as SAP and Hybris.

Intensive development work has been carried out on standardising SAP processing streams since financial year 2015/2016. Furthermore, these process chains were developed into standardised Instant Platform products.

1.6 Group structure and branch offices

KPS AG is the legal parent company of KPS Group that operates in Germany and in European countries outside Germany 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 that are of fundamental importance to the company.

The registered office of KPS AG is located in Unterföhring. Important subsidiaries are located in Barcelona (Spain), Hamburg (Germany), Copenhagen (Denmark), Norway (Oslo) and London (United Kingdom).

During the year under review, KPS continued to drive its European alignment forward and once again increased its revenues outside Germany.

1.7 Location and employees

KPS 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 all personnel. KPS also applies these standards in hiring new employees.

The key guiding principles are an optimal customer-centric approach, exceptional performance and commitment, safeguarding and improving KPS quality standards and a positive working environment.

On 30 September 2022, KPS Group had a total of 725 employees (previous year: 647). The number of employees therefore increased by 78 employees in financial year 2021/2022 compared to the balance sheet date, 30 September 2021. KPS employs 508 (previous year 459) people in Germany. This is equivalent to a share of 70.1% (previous year: 70.9%) in the Group overall.

Personnel expenses amounted to EUR 75.1 million in financial year 2021/2022 and were therefore 7.4% above the figure for the previous year (EUR 69.9 million).

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

Employees of KPS Group

	30.09.2022	30.09.2021	Change
Employees by region			
Germany	508	459	49
Spain	94	75	19
United Kingdom	78	75	3
Denmark	17	18	-1
Switzerland	6	5	1
Austria	8	5	3
Sweden	6	4	2
Netherlands	5	3	2
Norway	3	3	0
Total	725	647	78
Employees by function			
Executive Board	1	1	0
Managing Directions	9	12	-3
Consultants	632	529	103
Administration	79	101	-22
Apprentices	4	4	0
Total	725	647	78

Besides the Managing Directors listed above, the member of the Executive Board of KPS AG, Mr Leonardo Musso, also holds positions as Managing Director (of 11 additional companies in total). As of 30 September 2022, 10 people were employed as Managing Directors in KPS Group.

1.8 Group controlling system

A monitoring and controlling system is in place at KPS Group that is aimed at 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 implemented via the segments down to the individual profit centre levels. Periodic controlling is carried out on the basis of the international accounting and valuation principles. Besides sales and EBITDA, specific segment and profit centre indicators are used as measures of performance in controlling.

2. ECONOMIC REPORT OF KPS GROUP

2.1 Macroeconomic development

Comments on the sections concerning macroeconomic development:

When the Annual Report was prepared for the period 1 October 2021 to 30 September 2022, reference was made exclusively to business and economic reports that were published up to and including October 2022. Accordingly, possible effects, political measures and increasing uncertainties that could arise, from new developments in the Russia-Ukraine war, for example, are not considered in the following sections.

2.1.1 Development of the global economy

Economic growth and economic recovery hampered by the Russia-Ukraine war, the energy crisis and the high rate of inflation

In October 2022, according to the World Economic Outlook (October 2022), the International Monetary Fund (IMF) continues to expect moderate global economic growth of 3.2% in 2022. With a reduction to 2.7%, the IMF is also adjusting the forecast for 2023 downwards after 2.9% in July 2022.¹ After the global financial crisis in 2008 and the acute second phase of the COVID-19 pandemic, this represents the weakest growth outlook since 2001 and reflects a significant slowdown in the global economy. According to the IMF, global inflation is likely to increase from 4.7% in 2021 to 8.8% in 2022 and only fall to 6.5% in 2023 and 4.1% in 2024 in the coming years.²

The IMF currently sees major challenges for the global economy. In addition to the effects of the Russia-Ukraine war, the increasing inflationary pressure is destabilising the global economy in the long term. Both factors have fuelled the current energy crisis and hampered economic activity through increased production, commodity and living costs.³

The Kiel Institute for the World Economy (IfW) is adjusting its growth forecast in autumn 2022 and now expects growth in global gross domestic product (GDP) of just 2.9% for the full year 2022, after previously 5.0%.⁴ The experts justify this correction, among other things, with the consequences of the pandemic, especially in China, but also the effects of the Russia-Ukraine war, as a result of which the already strong inflation has increased further and led to supply bottlenecks. The IfW Kiel anticipates GDP growth of 2.2% for the year 2023.⁵

2.1.2 Development in Europe

Economic cooldown expected in the euro zone in 2022

According to the IfW Kiel, the euro zone was headed for a recession in 2022. Even if the economic recovery from the COVID-19 pandemic continued until mid-2022 despite the Russia-Ukraine war, a pronounced phase of economic weakness is to be expected in the coming quarters in view of higher energy prices.⁶

1 International Monetary Fund, World Economic Outlook, October 2022, World Economic Outlook, October 2022: Countering the Cost-of-Living Crisis (imf.org) p. XIII

2 International Monetary Fund, World Economic Outlook, October 2022, World Economic Outlook, October 2022: Countering the Cost-of-Living Crisis (imf.org) p. XVI

3 International Monetary Fund, World Economic Outlook, October 2022, World Economic Outlook, October 2022: Countering the Cost-of-Living Crisis (imf.org) p. XIII

4 IfW Kiel, faltering expansion of the world economy, Kiel Economic Reports World Economy Autumn 2022, No. 93, KKB_93_2022-Q3_Welt_DE.pdf (ifw-kiel.de) p. 11

5 IfW Kiel, faltering expansion of the world economy, Kiel Economic Reports World Economy Autumn 2022, No. 93, KKB_93_2022-Q3_Welt_DE.pdf (ifw-kiel.de) p. 11

6 IfW Kiel, recession ahead, Kiel economic reports for the euro area in autumn 2022, no. 94 KKB_94_2022_Q3_Euroraum_DE.pdf (ifw-kiel.de) p. 3

The inflation rate has increased accordingly since the beginning of 2021 to a level of 9.1% in August 2022.⁷ The IfW Kiel is assuming a gradual stabilisation of the economic environment for 2023, but with the proviso that the recent strong increased energy prices return to normal. With a moderate expansion of overall economic production, the experts from Kiel expect an increase in GDP of 3.0% in 2022, but forecast a nearly stagnant GDP in 2023.⁸

Economic activity in the euro zone has already exceeded the pre-pandemic level by 1.8%, but with clear differences between the individual countries of the euro zone and the GDP achieved individually. The gross domestic product in Finland, Greece, Slovenia, the Baltic States and the Benelux countries is significantly higher than before the corona crisis, but at the same time is only around 1.0% above the pre-pandemic level in France, Portugal and Italy, among other countries. According to the IfW Kiel, Germany and Slovakia were only just able to reach the pre-corona level, Spain is even 2.5% below it.⁹

2.1.3 Development in Germany

Rising energy prices and reduced purchasing power dampen economic recovery

According to the IfW Kiel, the German economy is being pushed into a recession by energy price increases that reduce purchasing power. While in the summer of 2022 it was still assumed that the gross domestic product would rise sharply despite the war in Ukraine, a downward pull in the German economy can now be observed. The experts are lowering their forecast for GDP in 2022 from 2.1% to 1.4%. The forecast for 2023 has been reduced from 3.3% to 0.7%.¹⁰

7 IfW Kiel, recession ahead, Kiel economic reports for the euro area in autumn 2022, no. 94 KKB_94_2022_Q3_Euroraum_DE.pdf (ifw-kiel.de) p. 5

8 IfW Kiel, recession ahead, Kiel economic reports for the euro area in autumn 2022, no. 94 KKB_94_2022_Q3_Euroraum_DE.pdf (ifw-kiel.de) p. 3

9 IfW Kiel, recession ahead, Kiel economic reports for the euro area in autumn 2022, no. 94 KKB_94_2022_Q3_Euroraum_DE.pdf (ifw-kiel.de) p. 4

10 IfW Kiel, economy on withdrawal, Kiel economic reports German economy in autumn 2022, no. 95

KKB_95_2022-Q3_Deutschland_DE.pdf (ifw-kiel.de) p. 3

2.2 Industry-related framework conditions

2.2.1 Increasing reluctance to invest unsettles the consulting industry

The consulting industry recorded a downturn in business development in the third quarter of 2022

In the business survey for the third quarter of 2022, the Federal Association of German Management Consultants (BDU) was able to identify a significant deterioration in the prospects for business development in the consulting industry in view of a multi-crisis situation. In the third quarter of 2022, only 40 percent of IT consultancies rated their business situation positively (Q2 2022: 60%). In contrast to crisis winners such as the restructuring consulting industry, the increasing reluctance to invest has thus noticeably arrived in the IT consulting field. The reason for this is that consulting clients are postponing particularly large projects for the time being in view of volatile framework conditions and crises.¹¹

The industry-specific business climate index formed by the BDU showed a value of 95.3 in the third quarter of 2022 (Q2/2022: 100.2), the fourth downward movement in a quarter in a row. However, the industry indicator is still at a comparatively high level compared to the ifo business climate index for the economy as a whole. In view of the increasing uncertainty among consulting clients from business, industry and politics, however, the likelihood of a weaker start to financial year 2023 is growing.¹²

2.2.2 Positioning of KPS Group

KPS is positioned as an end-to-end provider in the field of digital transformation. This means KPS Group covers all relevant areas with its products, consulting services, technology know-how and services: Digital Strategy, Digital Customer Interaction, Digital Enterprise. In the field of Digital Strategy, KPS supports its customers with its expertise in strategy consulting. Digital Customer Interaction bundles the services in the area of e-commerce. In this field, KPS assists its customers with improving the performance of their e-commerce shops and e-commerce strategies: Greater reach, better conversion, more customers, higher sales are the key KPIs in this field. Digital Enterprise is about transforming or rebuilding ERP infrastructures and systems of companies to the latest state of the art.

Historically, the focus and core competence of KPS Group was in the retail sector, i.e. food retailers, fashion companies, electronics chains, supermarket chains and other retailers. In recent years, the share of the retail sector has been around 70%, as KPS has managed to establish customer relationships outside of the retail sector.

In the meantime, KPS has an international character. KPS generated around 58% of its sales in its European target markets (ex Germany) in the reporting period.

The driver of growth is the increasing pressure to innovate that companies are exposed to. High inputs for resources such as personnel, know-how, and funds will be needed 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 tailor-made solutions enable successes to be achieved quickly and sustainably.

¹¹ Business Climate Index Consulting – October 2022, BDU press release, <https://www.bdu.de/news/multi-kunden-situation-daempft-zuversicht-fuer-2023/>

¹² Business Climate Index Consulting – October 2022, BDU press release, <https://www.bdu.de/news/multi-kunden-situation-daempft-zuversicht-fuer-2023/>

KPS feels it has competitive advantages with its Instant Transformation methodology, which enables it to provide customers with turnkey, ready-to-deploy solutions.

2.3 Business performance

In this section, changes in percent are used in the textual descriptions to present and explain the developments of financial figures. The percentage change is based on the unit KEUR (KEUR, thousand euros) in order to ensure a uniform presentation of percentage changes in financial figures at different points.

Sales development – revival of demand on the German market for ERP projects

KPS Group recorded a recovery in demand on the German market for ERP and digital transformation projects in financial year 2021/2022. Demand abroad remained at a high level. The easing of the COVID-19 measures for the retail trade had a positive effect.

With Russia's attack on Ukraine and the associated consequences, such as exorbitantly rising energy prices and a slowdown in the economy, new risks have emerged over the course of the financial year. In the reporting period, however, KPS only felt marginal effects on the development of revenue.

In financial year 2021/2022, KPS was able to increase its revenue by 13.6% to EUR 179.5 million (previous year: EUR 158.0 million). The sales generated were thus above the original forecast of an increase in revenue compared to the previous year in the mid to high single-digit percentage range.

The trust of prestigious customers from the sectors of retail, the consumer goods industry and other sectors with particular emphasis on energy and pharmaceuticals in the highly integrated digital transformation solutions of KPS continued to be high.

Revenue by segment and region – again strong growth in Switzerland and the UK and recovery in Germany

95.0% (previous year: 95.1%) of revenue was generated in the strategically most important segment of management consulting and transformation consulting. 0.7% (previous year: 0.8%) of revenue was generated in the segment System Integration, while 4.2% (previous year: 4.1%) of sales originated from business with products and licences.

Revenue generated in Germany rose by 10.8% to EUR 74.9 million, as already explained, in particular due to an upturn in demand for ERP and digital transformation projects. Domestic revenue was at 41.7% (previous year: 42.8%). Outside Germany, KPS managed to increase its revenue by 15.7% to EUR 104.6 million (previous year: EUR 90.4 million). The company once again recorded robust growth in the Swiss and UK markets. Revenue in Switzerland increased by 44.1% to EUR 19.6 million. The strong growth was driven by high demand for ERP and transformation projects. Demand for e-commerce services in the UK remained at an encouraging high level. As a result, revenue in the UK increased by 19.1% to EUR 22.9 million.

The contribution to revenue from foreign activities was 58.3% in the reporting period (previous year: 57.2%).

The breakdown of revenue in the reporting period by region gives the following picture for financial year 2021/2022: Germany continued to be the main source of revenue at EUR 74.9 million (previous year: EUR 67.6 million) or 41.7% (previous year: 42.8%), followed by Scandinavia with a volume of EUR 35.9 million (previous year: EUR 34.4 million) or a share of total revenue of 20.0% (previous year: 21.8%). Revenue of EUR 11.3 million (previous year: EUR 10.0 million) or 6.3% (previous year: 6.3%) was generated in Spain. In the BE-NE-LUX region, KPS achieved revenue of EUR 14.2 million (previous year: EUR 12.9 million) or 7.9% (previous year: 8.2%) of Group revenue. Revenue generated in the United Kingdom during the reporting period amounted to EUR 22.9 million (previous year: EUR 19.2 million) or 12.7% (previous year:

12.2%) and in Switzerland to EUR 19.6 million (previous year: EUR 13.6 million) or 10.9% (previous year: 8.6%) of the total revenue of KPS Group.

EBITDA at the previous year's level – earnings after taxes increased significantly

KPS achieved EBITDA of EUR 21.7 million in the reporting period 2021/2022, which corresponds to the level of the previous year (2020/2021: EUR 21.6 million). EBITDA was thus within the forecast published on 20 January 2022 of being able to achieve EBITDA at least at the level of the previous year 2020/2021 in financial year 2021/2022. In the period under review, KPS increasingly relied on service providers in order to be able to manage the significantly higher project volume. In addition, personnel expenses have increased as a result of the general price pressure and the shortage of skilled workers. Both factors influenced the EBITDA performance.

EBIT was EUR 14.3 million in the reporting period (previous year: EUR 13.4 million)

2.4 Earnings position, capital structure and asset position of KPS Group

Overview of the earnings position, capital structure and asset position

in EUR million	2022/2021	2021/2020
Group sales	179.5	158.0
EBITDA	21.7	21.6
EBIT	14.3	13.4
Group earnings	9.5	8.7
Earnings per share (in EUR)	0.26	0.23
Liquid funds	6.1	8.1
Financial liabilities	-21.0	-21.3

2.4.1 Earnings position

In the following sections, financial figures for the reporting period and other data are compared with the year-earlier period and the change is shown in percent. Calculation of the percentage change is always carried out in the unit of KEUR (KEUR, thousand euros), even when the financial figure is shown in million euros, in order to ensure comparability in this document.

Demand for ERP and transformation projects picked up significantly on the domestic market in the reporting period. At the same time, demand on the European markets addressed by KPS remained robust. Revenue increased again in virtually all regions. Accordingly, revenue increased by 13.6% to EUR 179.5 million.

EBITDA was influenced by the increased use of service providers and rising personnel expenses. Therefore, EBITDA in the reporting period 2021/2022 of EUR 21.7 million was at the level of the previous year (EUR 21.6 million). EBIT was robust, increasing from EUR 13.4 million to EUR 14.3 million.

Overview of the income statement

in KEUR	2021/2022	2020/2021
Revenues	179,526	157,979
Own work capitalized	0	950
Other operating income	828	1,186
Cost of materials	-63,809	-52,583
Personnel expenses	-75,090	-69,941
Other operating expenses	-19,802	-15,945
Operating result before depreciation and amortization (EBITDA)	21,652	21,647
Depreciation and amortization (M&A adjusted)	-6,611	-7,341
Operating result (EBIT) adjusted	15,041	14,306
Amortization and depreciation (M&A related)	-733	-898
Operating result (EBIT)	14,308	13,408
Financial result	-1,001	-973
Earnings before income taxes*	13,307	12,435
Income tax	-3,757	-3,708
Earnings after income taxes	9,550	8,727

* corresponds to the result from ordinary business activities

Revenue

As already explained at the beginning of the chapter, revenue increased due to an upturn in demand in Germany and continued very robust demand in the European markets of KPS. Revenue increased overall by 13.6% yoy to EUR 179.5 million (previous year: EUR 158.0 million).

Own work capitalised

No own work was capitalised in financial year 2021/2022. This figure was EUR 1.0 million in the previous year. In the previous year, it mainly related to internally developed intangible assets (development costs) for SAP process lines and software developed internally.

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.

Other operating income decreased in the reporting period compared to the previous year and amounted to EUR 0.8 million (previous year: EUR 1.2 million).

Cost of materials

Cost of materials increased by 21.3% in the reporting period or by EUR 11.2 million to EUR 63.8 million (previous year: EUR 52.6 million). The cost of materials ratio (cost of materials as a ratio of revenue) amounted to 35.5% (previous year: 33.3%). The significant increase in the use of service providers and

freelancers was particularly responsible for the high increase. This was necessary in order to be able to successfully handle the higher project volume.

Cost of materials essentially comprises the cost of insourced subcontractor services (service providers, freelancers) and software/hardware purchased.

Personnel expenses

Personnel expenses amounted to EUR 75.1 million in reporting period 2021/2022 and were therefore 7.4% higher by comparison with the year-earlier period (EUR 69.9 million). Drivers of personnel expenses included salary increases and higher utilisation of in-house employees, which resulted in higher bonus payments.

KPS Group had a workforce of 725 employees at the end of financial year 2021/2022. The number of employees thus increased by 78 compared to the previous year (647).

The personnel expense ratio (personnel expenses in relation to sales) fell from 44.2% the previous year to 41.8% in the reporting period. At 7.4%, the increase in personnel expenses was below the growth rate for revenue of 13.6%.

Other operating expenses

Other operating expenses increased from EUR 15.9 million to EUR 19.8 million compared to the same period of last year. They mainly include travel expenses, non-project-related subcontracted services and operating costs. The rise in travel and marketing expenses as a result of the easing of the COVID restrictions accounted for the increase.

Depreciation and amortisation

Depreciation (depreciation on tangible and intangible assets as well as M&A-related depreciation) fell from EUR 8.2 million in the same period of the previous year to EUR 7.3 million in the reporting period.

This includes the effects from application of IFRS 16 ("Leasing") in the amount of EUR 4.7 million (previous year: EUR 5.0 million). M&A-related depreciation was EUR 0.7 million (previous year: EUR 0.9 million).

Financial result

The Group's financial result was EUR -1.0 million (previous year: EUR -1.0 million). The negative financial result essentially comes from the interest expenses for fair value valuation and for bank loans.

Income taxes

Income taxes of EUR -3.8 million (previous year: EUR 3.7 million) mainly include current expenses for corporation tax, the solidarity surcharge and trade tax.

The tax rate dropped from 29.8% in 2020/2021 to 28.2% in 2021/2022.

Earnings after income taxes

Consolidated profit for the period was EUR 9.5 million (previous year: EUR 8.7 million).

2.4.2 Capital structure

Financial management at KPS has always been directed towards safeguarding the company's liquidity at all times. It encompasses capital structure, cash and liquidity management.

As in the previous chapters, the financial figures for the capital structure are mainly presented in million euros. The percentage change in a financial figure and the ratio of two financial figures is calculated on

the basis of thousands of euros to ensure comparability and rounding differences do not lead to different results.

Development of equity

Equity attributable to the shareholders of KPS amounted to EUR 71.8 million as of 30 September 2022 (previous year: EUR 69.0 million).

The equity ratio increased from 43.0% to 44.9% compared to the balance sheet date of the previous year. This is mainly due to the increase in equity while total assets remained nearly unchanged. Total assets as of 30 September 2022 amounted to EUR 160.1 million (30 September 2021: EUR 160.4 million).

Development of liabilities

Non-current liabilities fell from EUR 29.8 million (reporting date: 30 September 2021) to EUR 23.1 million in the reporting period (reporting date: 30 September 2022). Significant factors for the change in long-term debt included the reduction in long-term financial debt by EUR 4.0 million to EUR 1.5 million, the decrease in long-term lease liabilities by EUR 3.2 million to EUR 18.5 million. All long-term earn-out obligations had been repaid as of 30 September 2022.

As of the reporting date 30 September 2022, non-current liabilities essentially consisted of long-term leasing liabilities (EUR 18.5 million) and long-term financial liabilities (EUR 1.5 million). Non-current liabilities amounted to 14.4% of total assets (previous year: 18.6%) on the balance sheet date.

Current liabilities increased by 6.8% year-on-year to EUR 65.2 million (previous year: 61.6 million). They corresponded to 41.0% of total assets (previous year: 38.4%) as of the reporting date 30 September 2022.

As of 30 September 2022, current financial liabilities increased by EUR 2.2 million to 19.5 million.

Other current liabilities declined slightly from EUR 15.0 million to EUR 12.7 million.

Trade payables increased from EUR 7.6 million to EUR 11.2 million as of the reporting date.

Development of liquidity

Liquidity planning is adjusted and monitored constantly. Liquidity monitoring is being continuously strengthened and expanded.

KPS Group had liquid funds (= cash and cash equivalents) of EUR 6.1 million (previous year: EUR 8.1 million) as of 30 September 2022.

Financial debt was EUR -21.0 million as of 30 September 2022 and thus nearly unchanged compared to 30 September 2021 (EUR -21.3 million).

Cash flow from operating activities for the past financial year 2021/2022 was EUR 15.5 million compared to EUR 17.4 million last year.

Cash flow from investing activities amounted to EUR -4.6 million (previous year: EUR -6.2 million) and relates to investments made in fixed assets and other purchase price payments for company acquisitions. Purchase price payments of EUR 4.5 million were due in financial year 2021/2022 (previous year: EUR 4.7 million).

At EUR 0.1 million, investments in property, plant and equipment were at the same level as in the previous year and investments in intangible assets fell by EUR 1.3 million to KEUR 3 in the reporting period.

Cash flow from financing activities was EUR -12.8 million in the past financial year (previous year: EUR -23.3 million).

There were undrawn credit lines of EUR 19.0 million on the balance sheet date.

2.4.3 Asset position

Asset position and capital structure of KPS Group (abbreviated version)

in KEUR	30.09.2022	30.09.2021
Non-current assets	102,673	108,845
Current assets	57,391	51,563
Total assets	160,065	160,408
Shareholders' equity	71,792	69,019
Non-current liabilities	23,082	29,827
Current liabilities	65,190	61,562
Total liabilities	88,272	91,389
Total shareholders' equity and liabilities	160,065	160,408

KPS Group has a term-congruent balance sheet structure.

Total assets at the end of the reporting period 2021/2022 amounted to EUR 160.1 million and were thus at the level of the previous year (EUR 160.4 million).

The long-term capitalised rights of use from leasing contracts were EUR 23.4 million as of the reporting date 30 September 2022 (Previous year: EUR 26.7 million).

Development of assets

The figures reported in non-current assets amounted to EUR 102.7 million (previous year: EUR 108.8 million) as of the reporting date and corresponded to 64.1% of total assets (previous year: 67.9%).

This includes the goodwill from earlier acquisitions of KPS AG in the amount of EUR 62.5 million (previous year: EUR 62.5 million). Other intangible assets for the period were EUR 10.4 million (previous year: EUR 12.6 million).

Property, plant and equipment amounted to EUR 2.1 million as of the reporting date 30 September 2022 (previous year: EUR 2.4 million).

The capitalised deferred tax assets amounted to EUR 4.2 million (previous year: EUR 4.6 million).

Current assets increased by EUR 5.8 million to EUR 57.4 million as of 30 September 2022, driven by an increase in trade accounts receivable from EUR 34.5 million to EUR 42.6 million as of 30 September 2022. The increase is due to an expansion of the business volume. As of the reporting date, cash and cash equivalents totalled EUR 6.1 million (previous year: EUR 8.1 million).

Development of liabilities

As of 30 September 2022, conditional purchase price obligations of EUR 2.7 million (previous year: EUR 6.5 million) are reported.

2.4.4 Appropriation of earnings

Earnings after taxes for the reporting period amounted to EUR 9.5 million (previous year: EUR 8.7 million). The Executive Board and Supervisory Board propose a dividend in the amount of EUR 0.19 for the reporting period. This corresponds to the amount for the same period in the previous year (dividend 2020/2021: EUR 0.19). It would be equivalent to a total payout of EUR 7.1 million and a payout ratio of 74.4%.

This dividend proposal takes the profitability of KPS as well as the upcoming opportunities, challenges and uncertainties in the coming reporting period into account.

2.5 Earnings, financial and asset position of KPS AG

2.5.1 Earnings position

In financial year 2021/2022, the business activity of KPS AG comprised the functions of a holding company, as was the case in the previous year. Within this framework, management, monitoring and administrative activities, as well as controlling and finance were carried out for the operating units of KPS Group. As in the previous year, the costs incurred at KPS AG were allocated to the subsidiary companies by way of a Group allocation with a risk and profit surcharge of 5%.

Personnel expenses in the year under review amounted to KEUR 5,605 (previous year: KEUR 5,188). An average of 77 (previous year: 68) employees were employed in financial year 2021/2022.

Scheduled depreciation of intangible assets and property, plant and equipment amounted to KEUR 396 (previous year: KEUR 452). In addition, KEUR 1,000 in loans receivable from affiliated companies were written off completely, as they are not currently expected to be repaid.

Other operating expenses increased compared to the previous year to KEUR 1,221 (previous year: KEUR 631). This essentially includes administrative expenses such as rental and ancillary costs as well as expenses for consulting fees.

Investment income in the amount of KEUR 8,622 (previous year: KEUR 7,370) is based on profit distributions made by subsidiaries.

Income from profit transfers in the amount of KEUR 1,915 relates to KPS Transformation GmbH.

Interest income is essentially based on the discounting of long-term provisions.

Taking into account the minimum taxation, the corporate and trade tax expense has increased from KEUR 378 to KEUR 444 .

For financial year 2021/2022, KPS AG posted annual net profit of KEUR 9,798 compared to financial year 2020/2021 (annual net loss of KEUR 10,412).

2.5.2 Financial position

As of 30 September 2022, KPS AG had cash in the amount of KEUR 1,767 (previous year: KEUR 2,518). By comparison with 30 September 2021, net liquidity decreased by KEUR 751.

At the end of the reporting year, there were liabilities to banks in the amount of KEUR 21,000 (previous year: KEUR 21,300). These resulted on the one hand from a loan with a total term of five years and a total amount of KEUR 20,000 to finance company acquisitions amounting to KEUR 1,000 (previous year: KEUR 4,800) and from a further long-term loan with a total term of three years to finance company acquisitions amounting to KEUR 3,000 (previous year: KEUR 4,500). There were also short-term money-market loans for purposes of safeguarding liquidity in the amount of KEUR 17,000 (previous year: KEUR 12,000).

In the context of several company acquisitions, KPS AG took out a long-term loan in the amount of EUR 20 million. An interest rate swap in the amount of EUR 10 million was concluded to hedge the interest rate risk, which amounted to KEUR 0.5 million on the balance sheet date. In view of the term of the interest swap over several 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 recognised valuation models.

Cash funds were composed as follows on the balance sheet date:

	2021/2022	2020/2021
	in KEUR	in KEUR
Cash funds at the beginning of the period	2,518	6,506
Current business operations	11,222	19,603
Investment activities	-4,565	-5,931
Financial activities	-7,408	-17,660
Cash funds at the end of the period	1,767	2,518

2.5.3 Asset position

The asset side of the balance sheet of KPS AG is essentially defined by the valuation of the company's shareholdings in subsidiary companies in the amount of KEUR 95,323 (previous year: KEUR 93,151) and receivables from affiliated companies in the amount of KEUR 17,346 (previous year: KEUR 11,432).

The composition of the associated companies in accordance with Section 285 No. 11 HGB and information on the mergers of the companies that took place in the financial year are shown in the Notes.

The receivables from affiliated companies are based on Group allocations and internal Group settlements, such as sales taxes based on single entity tax arrangements and profit transfers.

Other assets increased from KEUR 955 in the previous year to KEUR 1,378 . This is primarily due to payments on account, receivables from the tax office relating to tax rebate claims and debit balances in accounts payable.

Shareholders equity in the company increased from KEUR 70,177 in the previous year to KEUR 72,867 .

The share capital of the company did not change during the financial year and continues to be at EUR 37,412,100.

The equity ratio increased compared to the year-earlier balance sheet date from KEUR 20,224 to KEUR 22,914 .

The equity ratio is 60.7% and has fallen by 1.9 percentage points compared to the previous year.

The provision for partial retirement amounted to KEUR 37 (previous year: EUR 0 thousand).

Tax provisions amounted to KEUR 58 (previous year: KEUR 26) and essentially include the current tax expense in 2021/2022 for corporate income tax and trade tax.

Other provisions amounted to KEUR 2,974 (previous year: KEUR 2,744) and are essentially based on obligations arising from the area of personnel.

Liabilities to affiliated companies increased by KEUR 6,862 from KEUR 11,943 to KEUR 18,805 . They are essentially the balance of the cash pooling established in KPS Group and cost allocations in the Group. Furthermore, the item also includes Group loans in the amount of KEUR 7,286 (previous year: KEUR 1,627) with a term of less than one year.

Liabilities to banks amounted to KEUR 21,000 (previous year: KEUR 21,300) and resulted firstly from a long-term loan with a total term of five years to finance company acquisitions amounting to KEUR 1,000 (previous year: KEUR 4,800) and from another long-term loan with a total term of three years to finance company acquisitions in the amount of KEUR 3,000 (previous year: KEUR 4,500). There are also short-term money-market loans for purposes of safeguarding liquidity in the amount of KEUR 17,000 (previous year: KEUR 12,000).

In the context of several company acquisitions, KPS AG took out a long-term loan in the amount of EUR 20 million. An interest rate swap in the amount of EUR 10 million was concluded to hedge the interest rate risk, which amounted to EUR 0.5 million on the balance sheet date. In view of the term of the interest swap over several 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 recognised valuation models.

Other liabilities decreased by KEUR 1,169 to KEUR 3,761 (previous year: KEUR 4,931). These essentially include the purchase price obligations due in financial year 2021/2022 for the acquisition of shareholdings in KPS Digital Ltd., United Kingdom, and Infront Consulting & Management GmbH, Hamburg, in the amount of KEUR 2,128 (previous year: KEUR 4,482).

2.5.4 Appropriation of earnings

Earnings after income taxes amounted to KEUR 9,798 (previous year: KEUR 10,412) in the reporting period and therefore increased by KEUR 614 compared to the previous year. The proposed dividend amounted to KEUR 7,108 (previous year: KEUR 7,108) or EUR 0.19 (previous year: EUR 0.19) per share. This dividend proposal takes into account the profitability and the reliable dividend continuity of KPS AG.

2.6 Financial and non-financial performance indicators

KPS uses various financial and non-financial performance indicators for internal controlling and for communication with investors and other stakeholders. These indicators include revenue, EBITDA, EBIT and employee indicators. These performance indicators are described in the following section.

2.6.1 Calculation of EBITDA and EBIT

EBIT (earnings before interest and taxes) corresponds to the operating result before the financial result and taxes. It is equivalent to the operating result of the income statement of KPS Group and was calculated on the basis of the IFRS standards.

In financial year 2021/2022, the EBIT of KPS Group was EUR 14.3 million compared to EUR 13.4 million in the previous year's period and thus rose by 6.7%.

EBITDA (earnings before interest, taxes, depreciation and amortisation) is calculated by supplementing EBIT with amortisation and depreciation on property, plant and equipment, and intangible assets, and M&A-related depreciation and amortisation. In financial year 2021/2022, depreciation and amortisation on property, plant and equipment, and intangible assets amounted to EUR 6.6 million and M&A-related depreciation and amortisation was EUR 0.7 million. Accordingly, EBITDA for the reporting period was EUR 21.7 million (previous year: EUR 21.7 million) and thus virtually unchanged.

2.6.2 Calculation of revenue

The net sales revenue achieved by KPS as a whole and in particular the net revenue generated in the segment Management Consulting and Transformation Consulting serve as a standard parameter for a sector comparison with competitors and for measuring the development of KPS.

In the reporting period 2021/2022, KPS Group generated sales revenue in the amount of EUR 179.5 million. Compared to the year-earlier period 2020/2021, revenue climbed by 13.6%. This growth in sales is primarily due to a recovery in demand in Germany and a continued very robust order situation abroad.

With a volume of EUR 170.6 million (previous year: EUR 150.3 million), KPS Group generates 95% of the Group's revenue with management and transformation consulting with well-known customers in the retail, consumer goods industry, pharmaceuticals, energy producers and others sectors.

The share of foreign sales was 58.3% (previous year: 57.2%) in the period under review.

2.6.3 Personnel

Our employees impress our 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 optimal customer-centric approach, exceptional performance and commitment, safeguarding and improvement of our quality standards and a positive working environment.

KPS Group had a total of 725 employees on 30 September 2022 (previous year: 647). This means that the number of employees in the reporting period increased by 78 compared to 30 September 2021.

In Germany, we employed a workforce of 508 employees (previous year: 459). This is equivalent to a share of 70.1% (previous year: 70.9%) in the Group overall. The average number of employees in the year under review amounted to 681 (previous year: 614) not including the Executive Board and Managing Directors.

Personnel expenses in financial year 2021/2022 were EUR 75.1 million (previous year: EUR 69.9 million).

2.7 Alternative performance indicators

EBIT as a parameter of the overall, operative and non-operative company result increased by EUR 0.9 million or 6.7% from EUR 13.4 million in the previous year to EUR 14.3 million in financial year 2021/2022.

For purposes of increasing transparency, adjusted EBIT (the adjusted operating result) is recognised in addition to EBIT, which shows the operating result (EBIT) before “M&A-related depreciation and amortisation” and amounted to EUR 15.0 million (previous year: EUR 14.3 million) in the year under review.

Based on sales revenue of EUR 179.5 million (previous year: EUR 158.0 million), the EBIT margin was 8.0% in the reporting period.

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

KPS Group returned to a growth path in the reporting period. The retail industry in Germany was extremely affected by the measures taken to contain the corona pandemic. With the gradual easing of the restrictive measures, the willingness to invest in retail has improved. In addition, the need of our customers in Germany for strategy advice increased in the reporting period. Domestic sales therefore increased by 10.7% in the reporting period.

The business situation in the foreign markets addressed by KPS remained at a high level compared to the same period of the previous year, both in large digital transformation projects and in the area of e-commerce services. This resulted in strong revenue growth of 15.7%. The good situation on the domestic market and abroad meant that KPS was able to slightly exceed its goals on the sales side. It was originally expected that sales revenue could be increased in the mid to high single-digit percentage range compared to the previous year. KPS achieved sales growth of 13.6% to EUR 179.5 million, which was above the estimate at the beginning of the financial year.

As expected at the beginning of the reporting period, the picture on the earnings side was mixed. KPS was unable to escape the general price increases, which led to higher personnel expenses. At the same time, KPS has increased the use of external consultants and freelancers in order to be able to handle the increased project volume. The guidance issued that EBITDA would be at least at the level of the previous year was achieved. EBITDA in the reporting period was EUR 21.6 million, at the level of the previous year.

Overall, the Executive Board considers the level of revenue and profits achieved to be solid.

With the further development of the Rapid Transformation method to the Instant Platforms products and the end-to-end approach, i.e. covering the entire value chain, the Executive Board sees itself well positioned to continue to lead KPS successfully into the future.

3. RISK AND OPPORTUNITY REPORT

The opportunities and risks described below apply to all reported segments of KPS Group.

3.1 Risk management targets and methods of 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 unfavourable impacts on a project at a point in time in the future with knock-on negative consequences for sales, income and liquidity of KPS Group. Furthermore, negative, exogenous events, which do not exert a direct impact on projects, constitute risks for KPS Group and can have negative effects on revenue, income, assets and the liquidity of KPS Group. The goals of risk management are to identify risks in good time and to classify them so that appropriate measures can be taken.

Risk management methods

Established controlling procedures and defined processes anchored in the KPS Instant Transformation® method can respond promptly to unexpected results, and countermeasures can be taken in good time.

An efficient management information system was established on the basis of innovative reporting instruments. This is being continuously adjusted to meet the current challenges for the company and is 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. Risks are identified by experienced project managers in regular reviews with the Vice Presidents and the Executive Board.

Influence of COVID-19

The effects of the COVID-19 pandemic and in particular the associated high level of uncertainty (caused by lockdowns and contact restrictions) were felt in financial year 2020/2021 in particular. Various KPS customers from the retail sector were severely affected by the containment measures. As an expert on digital transformation in retail, KPS is significantly affected indirectly by the current uncertainties regarding the further course of the pandemic. On the one hand, the pandemic is likely to accelerate the digital transformation of companies in the retail sector. However, the high level of uncertainty and the renewed intensification of the pandemic due to the so-called fourth wave in financial year 2020/2021 affected the willingness of current and potential new customers to invest, so that individual ongoing projects were paused and the start of potential new projects was influenced. A key risk management goal of KPS in financial year 2020/2021 was to identify and counteract the project risks in connection with the uncertainties regarding the further course of the pandemic in good time.

With the gradual easing and abolition of the containment measures, KPS has started to largely scale back the package of measures introduced in 2020. For example, employee travel increased again in financial year 2021/2022 compared to financial year 2020/2021. Some measures, such as the option of working from home, will remain in place for KPS employees, provided that the ongoing projects allow this.

With Russia's war against Ukraine, the uncertainties for current and new projects in financial year 2021/2022 have increased significantly again. In particular, the dramatically increased energy costs and the expected negative effects on private household consumption lead to increased uncertainties in the

retail sector, which is important for KPS. In addition, the economic situation in Europe has clouded over as a result of the war. As a result, KPS customers from the retail sector may also be affected negatively.

In financial year 2021/2022, however, the Ukraine war had no significant impact on the order and business situation of KPS.

3.2 Individual opportunities and risks

3.2.1 Macroeconomic opportunities and risks

The investment behaviour and the change in investment conduct by companies, particularly in the spheres of IT, digitalisation, and software, have exerted a major influence on the asset, financial and earnings position of KPS Group.

The investment behaviour relevant for KPS Group and the change in investment conduct is significantly influenced by the economic development in Germany, in KPS Group's European markets and in the important global markets of Asia and America.

The outbreak of the corona pandemic in 2020 had increased the overall uncertainties and thus the macroeconomic risks for KPS. The situation eased in financial year 2021/2022 as the far-reaching restrictions were lifted, with corresponding positive effects on demand for transformation projects. Depending on the further course of the corona pandemic, the pandemic risks for KPS could increase again.

With the war in Ukraine, the risks for the overall economic situation and thus for the demand for transformation projects have again increased significantly. Due to the new geopolitical situation as a result of the Ukraine war and the related negative effects on the overall economic situation in Germany and Europe, new risks and uncertainties result in the demand behaviour for services of KPS Group. Depending on the further development, this could have negative effects on the development of revenue and profit of KPS Group. The risks from the war in Ukraine will be discussed again in a separate section.

Risks from delivery bottlenecks and general price increases

The global supply chains are still tense due to the zero-COVID policy in China, the war in Ukraine and the consequences of the global corona pandemic. In addition, global inflation is at a historically high level.

KPS Group is not directly affected by material supply bottlenecks and material price increases. However, the company is confronted with a shortage of IT and software specialists, so that KPS cannot escape the salary increases, especially for its consultants. If necessary, new employees must be offered higher remuneration. In addition, the lack of skilled workers could increase the costs of using service providers.

Finally, it cannot be ruled out that KPS customers will be affected by price increases and delivery bottlenecks and that demand for transformation projects could therefore be affected. Therefore, KPS classifies the risks from general price increases and delivery bottlenecks as medium.

Opportunities and risks of KPS in the UK

KPS has a branch office in the United Kingdom and the Group is selling its services in the United Kingdom. These are not subject to customs duties, and import licences are not required. For this reason, KPS does not expect any significant negative effects on the business activities of KPS from the UK's exit from the European Union. The comparatively good sales development in the United Kingdom during the period under review confirms this assessment.

Risks from the war in Ukraine

With the Russian war in Ukraine, the geopolitical risks and the associated macroeconomic risks for the project business of KPS Group have increased significantly.

KPS does not maintain customer relationships in Russia and Ukraine and historically has not carried out any projects in either country. KPS had also not built up nearshore capacities either in the Ukraine or in Russia.

The project business of KPS Group and in particular the acquisition of new customers and new projects is also dependent to a large extent on the overall economic situation. The war in the Ukraine increases the uncertainties for the future business success of KPS Group. Customers and potential new customers could suspend, postpone or cancel digital transformation projects due to the increased risks and significantly higher energy, raw material and material prices. KPS classifies the risks for business success from the Ukraine war as high.

3.2.2 Sector-specific opportunities and risks

KPS serves leading large and mid-sized companies from German-speaking regions and the international arena as 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 organisation 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 very early on and is now one of the few management consultancies able to deliver holistic, company-wide (end-to-end), digital process chains for corporate management in real time and to implement them using standardised software solutions.

KPS expects significant growth momentum in omnichannel, B2B and 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. Moreover, 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 digitalisation. As a result, KPS is finding that when companies select consulting partners, they are increasingly placing importance on the pool of expertise and skills that consulting firms have for supporting transformation projects. The partners need 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. Companies are then able to successfully implement a fast ROI project and remain agile in fiercely competitive markets.

KPS is therefore continuing to develop its methods and services for industrialisation of the consulting approach and is now in a position to supply turnkey platforms to companies for the digitalisation of business processes. At the same time, the platforms have a high degree of individualisation and can therefore be modified quickly to meet the needs and requirements of customers. KPS sees significant opportunities in the platform approach for acquiring new customer projects and creating a distinctive profile in relation to competitors.

In addition, KPS has demonstrated its expertise in digital transformation by winning first and foremost places in several industry-relevant awards and through extensive partnerships with SAP.

Opportunities are created for KPS through the need to roll out omnichannel strategies in retail, to develop e-commerce shops further and to digitalise entire IT landscapes.

Risks from the tight job market for consultants and IT specialists

The situation on the job market for consultants and IT specialists continued to deteriorate in financial year 2021/2022. Employers are finding it harder to fill vacancies quickly because of labour shortages in some areas. KPS relies on being able to recruit appropriate skilled workers and specialists on the labour market. If KPS does not succeed in finding the necessary specialists, this could have a negative impact on how revenue and profit develop. KPS classifies the risks from the tight labour market as a medium risk.

The Management Report for financial year 2020/2021 dealt in particular with the effects of the COVID-19 pandemic. The negative effects of the pandemic have declined significantly most recently and the political containment measures have been largely lifted. Since, as already described, the probability of the COVID-19 pandemic escalating again cannot be reliably estimated, the industry-specific and medium-term risks from the COVID-19 pandemic continue to be shown.

Sector-specific risks resulting from the COVID-19 pandemic

On the one hand, the disruptive shock of the COVID-19 pandemic should accelerate the digital transformation of companies, particularly in the retail sector. This is because retail companies need to respond to the changes in behaviour and new ways of consuming resulting from the pandemic, and drive forward digital transformation appropriately to meet these challenges. KPS Group with its core competence offering digital transformation services end-to-end is likely to benefit significantly from this type of acceleration.

On the other hand, digital restructuring of a company's processes, the establishment of omnichannel strategies and solutions demands a high level of positive investment readiness by companies. The COVID-19 shock and the associated acceleration of online trading have increased the uncertainties for many companies in the retail sector, especially for companies with a focus on stationary sales. KPS therefore perceives a sector-specific risk as a result of the COVID-19 pandemic associated with potential negative consequences for the results of operations, profit and liquidity of KPS Group.

The COVID-19 pandemic is an event that has already taken place. The negative effects of the pandemic eased significantly in the past financial year. The further course of the COVID-19 pandemic cannot be reliably estimated, however. Therefore, the potential industry-specific COVID-19 risks are classified as medium to high.

Sector-specific risks resulting from the war in Ukraine

The war in Ukraine has clouded the economic outlook. Private households could limit their consumer spending due to the sharp rise in energy costs, with corresponding possible negative effects on the retail sector's willingness to invest. The potential industry risks from the Ukraine war are classified as medium to high.

3.2.3 Medium-term opportunities and risks arising from the COVID-19 pandemic

Although KPS has succeeded in creating a more international customer structure in recent years and acquiring customers outside the retail sector, the retail sector remains the most important area of activity for KPS.

Effects of the corona pandemic in financial years 2019/2020 and 2020/2021: Negative sales effects as a result of the coronavirus pandemic of at least EUR 23.0 million

Brick-and-mortar retail in Germany was especially strongly impacted by policy measures introduced to contain the COVID-19 pandemic in Germany. Owing to the resulting economic uncertainties, individual customers have been asking for project breaks and potential new customers have requested project postponements.

In financial year 2018/2019 before the outbreak of the COVID-19 pandemic, KPS recorded revenue in the amount of EUR 180.7 million. The two succeeding financial years 2019/2020 and 2020/2021 were impacted negatively by the coronavirus crisis. In the two financial years, KPS posted a drop in sales totalling around EUR 23.0 million. From the perspective of the management, the drop in sales is almost entirely due to the impact of the COVID-19 pandemic. This analysis does not take planned and expected increases in revenue into account. The Executive Board therefore assumes that the coronavirus pandemic led to a collapse in revenue of at least EUR 23 million.

Medium-term opportunities and risks arising from the coronavirus pandemic

KPS assumes that the COVID-19 pandemic will result in increased demand for KPS services in the medium term. The company sees a number of reasons for this.

Firstly, retail companies with a strong brick-and-mortar alignment have postponed investments in their digital IT landscapes during the years 2020 and 2021 due to the coronavirus crisis. KPS expects that this investment backlog will gradually clear up and should trigger an increasing demand for KPS services. The first catch-up effects were recorded in the past financial year 2021/2022, with a corresponding revival in demand.

Secondly, the coronavirus crisis is likely to have accelerated the change in consumer requirements in the direction of digital services. KPS believes this will compel companies to carry out even greater modifications to their structures, IT systems and their software, and do so even more quickly. KPS Group with its long track record of experience over many years in digital transformation is ideally positioned to benefit from this structural transformation.

Thirdly, KPS has geared its technological approach to be able to deliver its services remotely. The Instant Platforms product family developed to this end has been strategically developed for this approach in technological terms. KPS is therefore in a position to serve more customers with lower input of resources.

The Executive Board is assuming that the drops in sales due to COVID-19 can be recovered over the medium term and that KPS will then be able to return to a structural growth trajectory with its innovative Instant Platforms product family.

Owing to its flexible cost structure, KPS was able to cushion the negative impacts of the coronavirus, particularly by reducing the use of external service providers. The company assumes that the reduced level of the service providers will not be a structurally limiting factor for the return to a growth trajectory. Firstly, the number of service providers can be ramped up again to meet the corresponding order situation. Secondly, KPS is assuming that it will require fewer resources in the future as a result of its Instant Platforms approach.

3.2.4 Opportunities and risks arising from order processing

KPS deploys leading edge technology based on a proven track record with its Instant Platform product family 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 draw on instantly deployable platforms in order to achieve optimal transformation processes by exploiting

potential synergies in the consulting segments. The risk of introducing new digital processes and structures is thereby reduced significantly. KPS sees major opportunities to differentiate itself from competitors in the way in which orders are processed.

Generally speaking, planning and realising projects is quite challenging and complex. In many cases, additional requirements from customers result in changes to the structure or workflow of the project. These entail 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 pose a medium risk for KPS. Potential cost overshoots can rapidly have significant financial consequences for the company. For this reason, KPS has only entered into fixed price agreements on a few occasions thus far.

The complexity of the projects and specifics in the industries that KPS clients operate in 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 classified as low, however. 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 issues and challenges, 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 support.

Risks from temporary burdens arising from contract terminations are classified as medium. The serving of notices of termination on a customer contract or the contract not being extended after the initial prototype phase due to mistakes made by employees can indeed occur, however these tended to be rare in the past. However, if this risk is realised, temporary negative effects 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.

During the peak of the COVID-19 pandemic, some customers asked about project pauses and project postponements. In these cases, the project and order development was consequently interrupted with a corresponding negative impact on revenue and profit for KPS. Pauses and postponements were avoided in financial year 2021/2022 and the respective projects were continued or started. Depending on how the COVID-19 pandemic continues to develop, current or potential new customers of KPS could ask for additional project breaks and project deferrals or even cancel projects. This would have further negative effects on the development of revenue and profit. KPS assesses project deferrals and project breaks resulting from the COVID-19 pandemic as being a medium risk.

With the outbreak of the Ukraine war in February 2022, uncertainties increased again. In the past financial year 2021/2022, the war and its consequences for the overall economic development had no significant negative effects on demand for projects. Depending on how the situation develops, current projects could be put on ice again by customers or not be started. KPS classifies the risks from the Ukraine war for filling orders as high.

KPS is increasingly witnessing attempts by competitors to emulate the successful model in processing orders. This entails the possibility that medium-sized or large consulting firms are thereby attempting to achieve a competitive advantage over KPS, which would in turn cause increased competitive pressure for KPS. KPS classifies increased competitive pressure from replicating the KPS model as a medium risk.

3.2.5 Opportunities and risks as a general contractor for large companies

Due to the current size of the company, KPS is well positioned to handle projects for large, internationally active companies.

The increasing appeal of KPS enhances the opportunities of being hired by major clients as a general contractor. KPS believes that its instantly deployable sector platforms contribute to this appeal. Furthermore, the company is able to create a distinctive profile with its end-to-end approach, setting it apart from the competition and significantly enhancing its appeal to large companies as a general contractor.

The complexity of consulting initiatives and the size of its clients means that KPS can only work on a limited number of large projects at a time. If there is a failure (insolvency) of one or more of these major clients, a risk to the continuing existence of KPS as a going concern may not be able to be ruled out. Major customers of KPS are solely renowned clients who are deemed to have a high degree of creditworthiness and financial strength. KPS therefore classifies the risk of operating as a general contractor for large companies as a medium risk.

Risks as a general contractor in connection with the COVID-19 pandemic

A number of clients of KPS Group come from the brick-and-mortar retail trade. As a result of the COVID-19 pandemic and the associated effects, retailers in Germany apart from the area of DIY stores, drugstores, and food were subject to severe negative consequences. Most of these negative effects came to an end in the reporting period. New uncertainties could arise if the number of infections were to rise sharply again. KPS therefore classifies the risk related to COVID-19 as medium to high.

Risks as a general contractor in connection with the war in Ukraine

So far, KPS has not completed any projects in Russia or Ukraine. In addition, the company does not have any nearshore activities in either country. However, the indirect consequences of the war could have an impact on KPS as a general contractor. Slowing consumption and a global economic slowdown could affect demand for large transformation projects or ongoing projects. KPS classifies the risk as a medium risk.

3.2.6 Personnel risk

The company's knowledge resides in the human capital of KPS and is therefore firmly anchored in its employees.

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 have 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 particularly low risk in this respect. However, there is currently a high demand for IT, consultant and software specialists. Accordingly, the supply of software, IT and consulting specialists is quite limited, so that KPS may not be able to find the right specialised employees quickly enough. In addition, KPS is currently exposed to standard market salary increases in order to retain specialists and find new employees.

KPS assesses the personnel risk, which is typical in the consulting industry in connection with the current shortage of skilled workers, as a medium risk.

3.2.7 Opportunities and risks in investment and finance

KPS has expanded in countries outside the euro zone in recent years. This expansion has been pursued by acquisitions and through organic growth. Relevant sales are generated in the countries of Denmark, Sweden, the United Kingdom, Switzerland and Norway, in particular. These activities lead to currency risks to a limited extent. Firstly, KPS maintains dedicated resources in a number of countries so that costs are incurred in the individual national currencies. Secondly, KPS strives to use resources for projects from the various national subsidiaries. These measures allow the currency and exchange rate risks for KPS to be well controlled and limited. KPS therefore classifies currency risk as a low risk.

KPS considers liquidity and interest rate risks to be limited on account of the robust capital and financing structure.

KPS's business model entails managing relatively few but very complex projects at the same time. The goal of finance and risk management is to safeguard the company's success against all types of financial risks. The company pursues a conservative risk policy when managing financial positions.

The loss of a client can have a very negative impact on the liquidity situation of KPS. There is a credit risk/default risk for KPS 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 constantly monitored. Project managers and the top management receive a monthly 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 regard to financial assets, write-down adjustments are made as necessary. In order to minimise default risks, the company has an appropriate system of receivables management. As a result of the COVID-19 pandemic and the related uncertainties and risks, KPS has continued to strengthen its monitoring of customers' payment behaviour and the management of liquidity. The investment and financing risks referred to here are classified as medium risks.

3.2.8 Liquidity risk

Liquidity risk is defined as the risk of not being able to meet payment obligations on the date they fall due on. 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 is understood to be the risk of not being able to obtain liquidity as required or not at the expected conditions.

Besides the inflow of liquidity from ongoing business, KPS has sufficiently high credit lines available to cover any unforeseeable financing needs.

KPS classifies the liquidity risk as low.

3.2.9 Tax and legal risks

Tax risks

Due to KPS's international activities, the tax obligations are quite complex. The company monitors the tax obligations arising from its international activities in order to be able to identify potential risks very quickly. Tax risks are classified as medium overall.

Risks of violating legal and regulatory compliance

KPS Group operates from a number of source markets. The Group is therefore confronted with a wealth of national and international laws and regulations that it must comply with and observe. Otherwise, KPS would be exposed to the risk of fines or other sanctions from regulators.

KPS carries out the following measures in order to limit these risks:

- The management communicates and clearly lives the company culture (tone from the top) with regard to compliance with laws and regulations
- Regular reporting in various bodies (management meetings, audit committee, supervisory board) to ensure appropriate control, monitoring and implementation of action plans and to strengthen the integrity and compliance culture across the Group.
- Provision of external legal and tax expertise in all important areas of the business.

Overall, KPS classifies the risk of violating compliance with legal and supervisory regulations as a medium risk.

Legal risks

KPS carries out large and complex transformation projects for customers that are crucial to the customers' business success. It cannot be ruled out that within the scope of such projects, KPS and customers will have different views on the provision of services, which could result in legal disputes. KPS classifies the legal risk as medium.

3.2.10 Technological opportunities and risks

KPS sees significant technological opportunities in the need for companies, particularly from the retail and wholesale sector, to renew and develop their digital processes and IT structures.

KPS has developed its Rapid Transformation method further into a platform approach. It sees this as providing a technology platform that can be deployed instantly and that can be adapted to meet individual needs very quickly. The company markets its advanced approach as Instant Transformation.

The technological progress being made in the area of digitalisation demands continual adaptation of processes and structures. KPS's platforms have been designed so that adjustments can be made rapidly. KPS sees significant opportunities for acquiring new digitalisation projects based on its innovative strength.

Technological risks as a result of errors by employees of KPS can lead to the serving of notices of termination on service and project contracts. Increasing complexity and the accelerating pace of change increase technological risks of this nature even further. The likelihood of service, support or supply contracts being terminated at short notice as a result can entail temporary burdens on the development of revenue and profit. KPS classifies this risk as a medium risk.

Risks from cyber-attacks and IT failures

As a specialist in the digital transformation of companies and business processes, KPS relies on complex IT and software structures. Cyber-attacks can lead to system failures and interruptions to smooth operations. This can jeopardise current or future projects and thus cause financial damage to KPS. The company has introduced extensive protection mechanisms, is constantly improving them and permanently monitors its systems. The risks from possible cyber-attacks or IT failures are classified as high risk.

3.2.11 Opportunities and risks arising from the holding function of KPS AG

Due to the company's holding function, the asset, financial and earnings position of KPS AG depend on the economic performance of the subsidiary companies. On the basis of the strong financial and earnings position of KPS Group, the risks for KPS AG arising from its holding function are perceived as low.

3.3 Overall assessment of opportunities and risks

Overall, KPS believes that its technological expertise, the dedicated platforms developed in-house, its consulting expertise and in particular its highly qualified team of consultants put the Group in an ideal position to derive substantial benefits from the requirement of many companies to drive their digitalisation forward on that basis.

The partly negative effects of the corona pandemic, in the investment behaviour of current and potential new customers, for example, were overcome in financial year 2021/2022 and should accelerate digitalisation and thus the demand for transformation projects in the medium term.

KPS considers potential new risks or the uncertainties in the event of a renewed flare-up of the COVID-19 pandemic to be manageable. The management of risk is supported by the early risk identification system with the goal of identifying current risks at an early stage and instituting appropriate countermeasures.

With the outbreak of the war in Ukraine, the risk situation for KPS Group has increased. KPS does not maintain any business or service relationships in Russia or Ukraine. In the past financial year 2021/2022, the effects of the war on the course of business were minimal. Should the general economic situation deteriorate significantly as a result of the war, however, demand for major digital transformation projects could weaken significantly.

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 that could have the potential for loss and present a hazard to the continuing existence of KPS Group and pose a risk for its asset, financial and earnings position.

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 departments of KPS Group use an accounting-based internal controlling and risk management system that guarantees the complete, correct, and prompt communication of information, and includes all Group companies. Our objective is to identify, minimise or completely avoid any potential risks and negative developments at the earliest possible stage. These measures are intended to avert any potential losses and a potential risk to the existence of 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 reported to the Vice Presidents and Managing Partners responsible, and discussed in internal management meetings, and appropriate countermeasures are taken. Responsibilities are clearly defined; the use of the dual control principle and strict IT authorisation 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. Here, uniform accounting and valuation principles are applied throughout the Group.

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

4. FORECAST REPORT

4.1 Macroeconomic forecast

Weaker global economic growth expected in 2023

After the global economy had not yet fully recovered from the consequences of the corona pandemic in 2021, the Russia-Ukraine war had an additional negative impact on global economic development in 2022.¹³ The resulting increase in energy and raw material prices increased the high level of uncertainty worldwide.¹⁴ Nevertheless, economic output expanded in the first half of 2022 with quarterly rates of 0.7% and 0.8% respectively.¹⁵ Accordingly, economic output should increase significantly at a rate of 3.0% in the current year.¹⁶ On average over the coming year, overall economic production and inflation dynamics will continue and ultimately led to a sharp global rise in interest rates.¹⁷

Accordingly, the leading German economic research institutes reduced their forecasts for growth in global production for 2022 from 3.5% in the spring to currently 2.5%. Growth of only 1.8% is now forecast for the coming year 2023.¹⁸ On the other hand, an increase in world production of 3.0% is expected for 2024.¹⁹

Inflation, particularly in European countries, will remain at a high level next year and is not expected to drop noticeably until 2024.²⁰

European economies characterised by high inflation rates

In 2022, the European economies will be hit hard by a significant increase in inflation, mainly driven by higher energy and food prices and resulting in a rise in key interest rates, but is expected to increase by only 0.3%. The institutes are anticipating a growth rate of 2.1%²¹ for 2024 as a whole.

The unemployment rate fell further and was 6.6% in the euro zone in June. This is the lowest level in since the founding of the monetary union.²² An increase to 7.3% is forecast for 2023 and a decline to 7.0% again for 2024.²³

Germany: Decline in the gross domestic product expected in 2023 with subsequent expansion from 2024

The economic situation in Germany is burdened by a critical narrowing of the gas markets due to the Russia-Ukraine war. This is dampening the economic recovery from the corona pandemic, which has not

¹³energy crisis: Inflation, recession, loss of wealth. joint diagnosis 2 2022 Project group joint diagnosis, September 2022, IfW_Kiel_GD_2_2022_FINALE_RZ.indd (gemeinschaftsdiagnose.de) p. 10

¹⁴energy crisis: Inflation, recession, loss of wealth. joint diagnosis 2 2022 Project group joint diagnosis, September 2022, IfW_Kiel_GD_2_2022_FINALE_RZ.indd (gemeinschaftsdiagnose.de) p.23/24

¹⁵energy crisis: Inflation, recession, loss of wealth. joint diagnosis 2 2022 Project group joint diagnosis, September 2022, 2 IfW_Kiel_GD_2_2022_FINALE_RZ.indd (gemeinschaftsdiagnose.de) p. 22

¹⁶ Energy Crisis: Inflation, recession, loss of wealth. joint diagnosis 2 2022 Project group joint diagnosis, September 2022, IfW_Kiel_GD_2_2022_FINALE_RZ.indd (gemeinschaftsdiagnose.de) p. 29

¹⁷energy crisis: Inflation, recession, loss of wealth. joint diagnosis 2 2022 Project group joint diagnosis, September 2022, IfW_Kiel_GD_2_2022_FINALE_RZ.indd (gemeinschaftsdiagnose.de) p. 9

¹⁸energy crisis: Inflation, recession, loss of wealth. joint diagnosis 2 2022 Project group joint diagnosis, September 2022, IfW_Kiel_GD_2_2022_FINALE_RZ.indd (gemeinschaftsdiagnose.de) p. 16

¹⁹energy crisis: Inflation, recession, loss of wealth. joint diagnosis 2 2022 Project group joint diagnosis, September 2022, IfW_Kiel_GD_2_2022_FINALE_RZ.indd (gemeinschaftsdiagnose.de) p. 16

²⁰energy crisis: Inflation, recession, loss of wealth. joint diagnosis 2 2022 Project group joint diagnosis, September 2022, IfW_Kiel_GD_2_2022_FINALE_RZ.indd (gemeinschaftsdiagnose.de) p. 16

²¹energy crisis: Inflation, recession, loss of wealth. joint diagnosis 2 2022 Project group joint diagnosis, September 2022, IfW_Kiel_GD_2_2022_FINALE_RZ.indd (gemeinschaftsdiagnose.de) p. 29

²²energy crisis: Inflation, recession, loss of wealth. joint diagnosis 2 2022 Project group joint diagnosis, September 2022, IfW_Kiel_GD_2_2022_FINALE_RZ.indd (gemeinschaftsdiagnose.de) p. 23

²³energy crisis: Inflation, recession, loss of wealth. joint diagnosis 2 2022 Project group joint diagnosis, September 2022, IfW_Kiel_GD_2_2022_FINALE_RZ.indd (gemeinschaftsdiagnose.de) p. 29

yet come completely to an end, and pushing the German economy into recession.²⁴ Leading economic institutes expect a significant decline in overall economic capacity utilisation up to 2024.²⁵

For the current year 2022, the institutes expect an increase in the gross domestic product of 1.4%. In the spring, this forecast was still 2.7%.²⁶ The institutes also lowered their forecast for the growth rate of the gross domestic product for Germany in 2023 from 3.1% in the spring to just 0.4% now. An increase of 1.9% is expected for 2024.²⁷

The number of people registered as unemployed rose to 2.5 million in August. This is mainly due to the first-time recording of Ukrainian refugees who have been receiving basic social security benefits for jobseekers since June. Accordingly, the increase in unemployment was limited to the legal area of SGB II (unemployment insurance), in which the number of unemployed remained unchanged at the level of the previous months. Before this special effect occurred, unemployment was back to pre-pandemic levels²⁸. The unemployment rate is expected to rise to 5.5% in 2023 and in the course of the anticipated economic recovery is expected to drop to 5.3% in 2024.²⁹

4.2 Industry-specific forecast

Continuous sales growth expected in the IT industry - volatile market environment harbours risks

According to the results of the 2022 Lünendonk study on market development for IT consulting and IT services in Germany, the IT service market grew by an average of 13.1% in 2021. The authors of the study expect average sales growth of 12.9% and 12.6% in 2023.³⁰ The study shows that 43% of the companies surveyed do not yet consider their organisation to be optimally aligned with the current customer and business requirements and, as a result, are planning budget increases for 2023 of an average of 78%.³¹

According to experts, the future development of the industry will be determined not only by the current shortage of IT specialists, but also by macroeconomic factors such as rising inflation and global supply chain bottlenecks as a result of the Russia-Ukraine war and the corona pandemic.³²

4.3 Expected business development of KPS Group and KPS AG

The basis for the assessment for financial year 2021/2022 is the development of previous reporting periods, the results of the past few months, the consulting portfolio consisting of current projects and newly acquired projects as well as the influence of the overall economy, the geopolitical situation and monetary policy on the business situation.

In the last two financial years, the forecasts have been subject to a high degree of uncertainty due to the corona pandemic. With the outbreak of Russia's war against Ukraine, the risk situation increased again, since customers and potential new customers could decide to lower their investments, especially in larger transformation projects, due to the uncertainties caused by the energy crisis, the slowdown in

²⁴energy crisis: Inflation, recession, loss of wealth. joint diagnosis 2 2022 Project group joint diagnosis, September 2022, IfW_Kiel_GD_2_2022_FINALE_RZ.indd (gemeinschaftsdiagnose.de) S. 10

²⁵energy crisis: Inflation, recession, loss of wealth. joint diagnosis 2 2022 Project group joint diagnosis, September 2022, IfW_Kiel_GD_2_2022_FINALE_RZ.indd (gemeinschaftsdiagnose.de)

²⁶energy crisis: Inflation, recession, loss of wealth. Joint diagnosis 2-2022, project group joint diagnosis, September 2022, 2nd IfW_Kiel_GD_2_2022_FINALE_RZ.indd (gemeinschaftsdiagnose.de) S. 38

²⁷energy crisis: Inflation, recession, loss of wealth. Joint Diagnosis 2-2022, Project Group Joint Diagnosis, September 2022, IfW_Kiel_GD_2_2022_FINALE_RZ.indd (gemeinschaftsdiagnose.de) S.34

²⁸energy crisis: Inflation, recession, loss of wealth. joint diagnosis 2 2022 Project group joint diagnosis, September 2022, IfW_Kiel_GD_2_2022_FINALE_RZ.indd (gemeinschaftsdiagnose.de) S. 52

²⁹energy crisis: Inflation, recession, loss of wealth. Joint diagnosis 2 2022 Project group joint diagnosis, September 2022, 2 IfW_Kiel_GD_2022_53_FINALE_RZ.indd (gemeinschaftsdiagnose.de)S

³⁰Lünendonk Study 2021, The Market for IT Consulting and IT Service in Germany 2022, <https://www.luenendonk.de/produkte/studienpublikationen/luenendonk-studie-2022-der-markt-fuer-it-dienstleistungen-in-deutschland-it/>, p.8

³¹Lünendonk Study 2021, The Market for IT Consulting and IT Service in Germany 2022, <https://www.luenendonk.de/produkte/studienpublikationen/luenendonk-studie-2022-der-markt-fuer-it-dienstleistungen-in-deutschland-it/>, p.8

³²Lünendonk Study 2021, The Market for IT Consulting and IT Service in Germany 2022, <https://www.luenendonk.de/produkte/studienpublikationen/luenendonk-studie-2022-der-markt-fuer-it-dienstleistungen-in-deutschland-it/>, p.8

consumption and the economic downturn. However, based on the information available at the time of the report, the Executive Board is optimistic for the new financial year 2022/2023. The digital transformation of business processes and company procedures are crucial in order to be able to compete. With its end-to-end approach, with full coverage of the main service levels and with the new generation of Instant Platforms products, KPS is excellently positioned to assist companies with their necessary digital transformation.

The Executive Board of KPS AG estimates that it will be able to increase revenue in financial year 2022/2023 compared to financial year 2021/2022 in the mid-single-digit percentage range. In addition, it plans to be able to achieve EBITDA growth in the high single-digit to low double-digit percentage range compared to financial year 2021/2022. This planning assumes that ongoing and new projects in the areas of strategy, transformation and e-commerce contribute to the expected growth in revenue.

The forecast is based on facts and projections regarding future business and economic developments known to us today. From today's point of view, unforeseeable changes in the anticipated economic framework conditions for the current order backlog and other external or internal factors could have negative effects on our sales and earnings expectations, so that the estimates made in this report cannot be achieved.

5. REMUNERATION REPORT

5.1 Remuneration of the Executive Board

The remuneration system for Executive Board members consists of performance-independent and performance-dependent components. The non-performance-dependent remuneration components consist of the basic salary and the contractual fringe benefits. The performance-dependent component includes the bonus, performance-related special bonuses and stock options. The performance-dependent component is linked with a performance-related bonus payment based on a sustainable company development which is calculated over a measurement period totalling three years (the relevant starting year and the two subsequent years). A new assessment period with new targets begins each financial year. During the assessment periods, advance payments are made based on the targets achieved up to that point and the estimate of target achievement for the remaining periods. After the end of each financial year of the relevant assessment period and the submission of the audited Annual and Consolidated Financial Statements of the company for this financial year to the Supervisory Board, the Executive Board member receives an annual advance payment on the expected bonus for a starting year, the amount of which is based on the balance of the payments made up to that point bonus and penalty amounts. The Supervisory Board is entitled to adjust the amount of the advance payment at its reasonable discretion. The payment on account is due for payment with the next salary payment after the audited Annual and Consolidated Financial Statements have been submitted to the Supervisory Board. After the final bonus has been determined, the Executive Board member is obliged to immediately repay any difference between the payments on account of an expected bonus and the finally determined bonus to the company.

The fixed and variable remuneration paid to the sole member of the Executive Board for his activity in financial year 2021/2022 amounted to a total of KEUR 680 (previous year: KEUR 578), with the variable share amounting to 46.7% (previous year: 37.4%) of the total payments.

The members of the Executive Board are contractually granted fringe benefits. These include, among other components, the provision of an appropriate company car for business and private use. Furthermore, the members of the Executive Board receive reimbursement of the usual employer contributions to statutory pension insurance and full statutory contributions to health and nursing care insurance if they are employed as employees. Furthermore, the members of the Executive Board receive insurance protection in various areas, in particular in the form of accident insurance and property damage liability insurance (D&O insurance). The expenses for the flat-rate vehicle payment and the contributions for statutory health insurance amounted to KEUR 62 (previous year: KEUR 62) in financial year 2021/2022.

5.2 Remuneration payments to members of the Supervisory Board

A resolution defining the current remuneration 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 remuneration amounting to KEUR 15 in addition to reimbursement of their expenses after the financial year has come to an end. The Chairman of the Supervisory Board receives KEUR 25. The remuneration is payable after the Annual General Meeting.

The remuneration for the Supervisory Board, including reimbursement of expenses, amounted to a total of KEUR 67 (previous year: KEUR 67) in financial year 2021/2022. In financial year 2021/2022, the remuneration payments excluding reimbursement of expenses for the Chairman of the Supervisory Board, Mr Michael Tsifidaris, amounted to KEUR 25 (previous year: KEUR 25), for Mr Uwe Grünewald KEUR 15 (previous year: KEUR 15) and for Mr Hans-Werner Hartmann KEUR 15 (previous year: KEUR 15).

6. DISCLOSURES RELEVANT TO ACQUISITIONS PURSUANT TO SECTIONS 289A, 315A GERMAN COMMERCIAL CODE (HGB) AND THE EXPLANATORY REPORT FOR FINANCIAL YEAR 2021/2022

6.1 Composition of subscribed capital

The share capital of the company amounted to EUR 37,412,100 on 30 September 2022. It is divided up into 37,412,100 no-par value ordinary shares each representing a nominal value of 1 euro in the share capital. All shares entail the same rights and obligations.

During the course of the financial year, none of the company's own shares (treasury shares) were purchased or sold. The company did not hold any treasury shares (previous year: 0) on 30 September 2022.

6.2 Restrictions on voting rights and transfers

The Executive Board is not aware of any agreements between shareholders that 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 Act (WpHG) is not applicable.

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

6.3 Capital shareholdings greater than 10 percent

Direct or indirect shareholdings in the capital of the company that exceed 10% of the voting rights were held as follows according to the knowledge of the Executive Board as at 30 September 2022:

	shares	in %
Michael Tsifidaris	9,080,049	24.3%
Leonardo Musso	4,103,084	11.0%
Uwe Grünewald	4,052,390	10.8%
Dietmar Müller	3,813,359	10.2%

In financial year 2021/2022, KPS AG did not receive any further notifications relating to direct or indirect shareholdings that exceed 10% of the voting rights. Furthermore, the company has not 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 that 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 changes to the statutes of the company

The members of the Executive Board are appointed and dismissed pursuant to Article 84, Stock Corporation Act (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 company's statutes require a resolution of the Annual General Meeting pursuant to Article 179, para. 1, Stock Corporation Act (AktG) which, unless the statutes make provision for some other majority, require a majority of three-quarters of the share capital represented when the vote is taken pursuant to Article 179, para. 2, Stock Corporation Act (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 authorisation for creation of Authorised Capital 2020/I approved by the Annual General Meeting on 25 September 2020 was cancelled by resolution of the ordinary Annual General Meeting held on 21 May 2021. Instead, Authorised Capital 2021/I was created in the amount of EUR 18,706,050.00.

As a result of this resolution, the Executive Board is empowered with the consent of the Supervisory Board to increase the share capital up until 24 September 2025 (including) once or more than once up to nominally EUR 18,706,050.00 against cash and/or non-cash contributions by issuing new ordinary registered no-par-value shares (no-par shares), subject to the possible exclusion of shareholders' pre-emptive rights.

There was no change in the Authorised Capital 2021/I in financial year 2021/2022.

The resolution adopted by the Annual General Meeting on 21 May 2021 and the substitution of the resolution by the Annual General Meeting on 25 September 2020 provided the authorisation to acquire and dispose of its own shares with the right of excluding subscription or other option rights to offer shares. According to this, the Executive Board is authorised with the approval of the Supervisory Board to acquire and dispose of its own shares up to a total amount of 10% of the share capital in existence on the date the resolution is adopted on. This resolution is effective from the date of the Annual General Meeting and ends at midnight on 20 May 2026. 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. No shares were purchased or sold in financial year 2021/2022.

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 current sole Member of the Executive Board will receive a severance payment within 12 months of the change of control amounting to 75% of the current annual gross income to which he is entitled on the date of the contract termination if he exercises the contractually agreed special right to serve notice of termination within 12 months of the change of control. A change of control is deemed to exist if one or more than one shareholders 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, para. 1, Stock Corporation Act (AktG). The same shall apply if the company merges with another enterprise. For such an eventuality, the Vice Presidents have been granted an extended deadline for serving notice of termination. In the case of voluntary notice of termination issued by a Vice President, he is entitled to request the waiver to prohibition on competition.

7. LEGAL DISCLOSURES

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

The Group Declaration on Corporate Governance pursuant to Articles 315d, 289f German Commercial Code (HGB) including the Compliance Declaration pursuant to Article 161 Stock Corporation Act (AktG) is publicly accessible under: <https://kps.com/de/de/company/investor-relations/corporate-governance.html>.

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

KPS AG has published the activities of KPS Group in the area of sustainability in a separate Non-financial Group Report (Sustainability Report). The separate Non-financial Group Report is available here <https://kps.com/de/de/company/investor-relations/financial-publications.html>

Unterföhring, 13 January 2023

KPS

CONSOLIDATED FINANCIAL STATEMENTS



21/
22

KPS AG Consolidated Financial Statements in accordance with IFRS

INCOME STATEMENT

for the period from 1 October 2021 to 30 September 2022

in KEUR	Note	2021/2022	2020/2021
1 Revenues	5.1.	179,526	157,979
2 Own work capitalized	5.2.	0	950
3 Other operating income	5.3.	828	1,186
4 Cost of materials	5.4.	-63,809	-52,583
5 Personnel expenses	5.5.	-75,090	-69,941
6 Other operating expenses	5.6.	-19,802	-15,945
7 Operating result before depreciation and amortization (EBITDA)		21,652	21,647
8 Depreciation and amortization (M&A adjusted) *	5.7.	-6,611	-7,341
9 Operating result (EBIT) adjusted *		15,041	14,306
10 Depreciation and amortization (M&A related)	5.7.	-733	-898
11 Operating result (EBIT)		14,308	13,408
12 Financial income	5.8.	16	9
13 Financial expenses	5.8.	-1,017	-982
14 Financial result		-1,001	-973
15 Earnings before income taxes **		13,307	12,435
16 Income tax	5.9.	-3,757	-3,708
17 Earnings after income taxes		9,550	8,727
Number of shares in thousands - basic/diluted		37,412	37,412
in euros			
Earnings per share			
– basic	5.10.	0.26	0.23
– diluted	5.10.	0.26	0.23

* adjusted by depreciation and amortisation 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

for the period from 1 October 2021 to 30 September 2022

in KEUR	2021/2022	2020/2021
Earnings after income taxes	9,550	8,727
Actuarial gains and losses arising from defined benefit pension commitments and similar obligations	-234	-266
Foreign currency translation adjustment for foreign subsidiary companies	125	-110
Comprehensive income	9,441	8,351

KEY FIGURES FOR THE INCOME STATEMENT

in EUR million	2021/2022	2020/2021
Revenues	179.5	158.0
EBITDA	21.7	21.6
EBITDA margin	12.1%	13.7%
EBIT	14.3	13.4
EBIT margin	8.0%	8.5%

KPS AG Consolidated Financial Statements in accordance with IFRS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 September 2022

ASSETS

in KEUR	Note	30.09.2022	30.09.2021
ASSETS			
A. NON-CURRENT ASSETS			
I. Property, plant and equipment	6.1.	2,126	2,406
II. Goodwill	6.2.	62,546	62,546
III. Other intangible assets	6.2.	10,401	12,627
IV. Rights of use from leasing contracts	6.3.	23,424	26,666
V. Deferred tax assets	6.4.	4,177	4,601
		102,673	108,845
B. CURRENT ASSETS			
I. Contractual assets	6.5.	3,180	6,036
II. Trade receivables	6.6.	42,592	34,500
III. Other receivables and financial assets	6.7.	3,864	1,840
IV. Entitlements to income tax rebates	6.8.	1,697	1,127
V. Cash and cash equivalents	6.9.	6,058	8,060
		57,391	51,563
Total assets		160,065	160,408

KPS AG Consolidated Financial Statements in accordance with IFRS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 September 2022

LIABILITIES AND SHAREHOLDERS' EQUITY

in Keuros	Note	30.09.2022	30.09.2021	
A. SHAREHOLDERS' EQUITY				
Share in equity attributable to shareholders of KPS A				
I.	Subscribed capital	6.9.1	37,412	37,412
II.	Capital reserve	6.9.4	-10,001	-10,222
III.	Retained earnings	6.9.5	663	663
IV.	Other comprehensive income	6.9.6	374	264
V.	Group net profit	6.9.7	43,345	40,902
Total equity			71,792	69,019
LIABILITIES				
B. NON-CURRENT LIABILITIES				
I.	Non-current provisions	6.10.	1,685	1,925
II.	Other non-current liabilities	6.11.	0	295
III.	Non-current financial liabilities	6.12.	1,500	4,000
IV.	Non-current leasing liabilities	6.21.	18,505	21,747
V.	Deferred tax liabilities	6.13.	1,392	1,860
			23,082	29,827
C. CURRENT LIABILITIES				
I.	Trade liabilities	6.14.	11,232	7,639
II.	Financial liabilities	6.15.	19,500	17,300
III.	Contractual liabilities	6.16.	273	196
IV.	Other provisions	6.17.	14,203	13,821
V.	Other liabilities	6.18.	12,719	14,987
VI.	Current leasing liabilities	6.21.	4,477	4,620
VII.	Income tax liabilities	6.19.	2,786	3,000
			65,190	61,562
Total liabilities			88,272	91,389
Total shareholders' equity and liabilities			160,065	160,408
Equity ratio			44.9%	43.0%

KPS AG Consolidated Financial Statements in accordance with IFRS

CONSOLIDATED STATEMENT OF CASH FLOWS
for the period 1 October 2021 to 30 September 2022

in KEUR	2021/2022	2020/2021
A. Current business operations		
Earnings before interest and income taxes (EBIT)	14,308	13,408
Depreciation of fixed assets	7,344	8,239
Change in current assets	-7,260	-2,488
Change in provisions	-551	255
Other non-cash expenses and income	1,191	483
Changes in other liabilities	4,945	584
Losses from asset disposals	1	1
Taxes paid	-4,531	-3,107
Interest received	16	5
Cash inflow/outflow from business operations	15,463	17,380
B. Investment activities		
Investments in property, plant and equipment	-95	-124
Investments in intangible assets	-3	-1,344
Investments in acquisition of KPS Business Transformation and Digital, S.L.U., Spain	-2,329	-2,000
Investments in acquisition of Infront Consulting & Management GmbH, Hamburg	-1,018	-1,484
Investments in acquisition of KPS Digital Ltd., United Kingdom	-1,191	-1,231
Cash receipts from sale of assets	0	0
Cash inflow/outflow from investment activities	-4,636	-6,183
C. Financial activities		
Interest paid	-409	-357
Interest paid for leasing liabilities	-151	-159
Cash receipts from taking out loans	17,000	12,000
Payments for the settlement of loans	-17,300	-23,300
Payments for the settlement of leasing liabilities	-4,862	-5,077
Dividend pay-outs	-7,107	-6,360
Cash inflow/outflow from financial activities	-12,829	-23,253
D. Net change in cash fund	-2,002	-12,056

in KEUR	2021/2022	2020/2021
E. Cash funds at the beginning of the period	8,060	20,115
F. Related consolidation changes in cash fund	0	0
G. Cash funds at the end of the period	6,058	8,060
	Balance	Balance
	30.09.2022	30.09.2021
	COMPOSITION OF CASH FUND	
in KEUR		
Cash in hand and bank balances	6,058	8,060
Cash funds	6,058	8,060

KPS AG CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in KEUR	Subscribed capital	Treasury shares	Total of subscribed capital	Capital reserve	Retained earnings OCI	Currency translation differences	Accumulated other comprehensive income		Equity
							Pension commitments	Group net profit	
30.09.2020	37,412	0	37,412	-10,222	663	-38	-73	38,535	66,277
Disposal of treasury shares	0	0	0	0	0	0	0	0	0
Dividend payout	0	0	0	0	0	0	0	-6,360	-6,360
Changes recognized without affecting income	0	0	0	0	0	110	265	0	375
Group earnings	0	0	0	0	0	0	0	8,727	8,727
30.09.2021	37,412	0	37,412	-10,222	663	72	192	40,902	69,019
Disposal of treasury shares	0	0	0	0	0	0	0	0	0
Dividend payout	0	0	0	0	0	0	0	-7,107	-7,107
Changes recognized without affecting income	0	0	0	0	0	-126	236	0	110
Share-based payment management	0	0	0	221	0	0	0	0	221
Group earnings	0	0	0	0	0	0	0	9,550	9,550
30.09.2022	37,412	0	37,412	-10,001	663	-54	428	43,345	71,793

KPS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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1. INFORMATION ON THE COMPANY AND THE GROUP

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

KPS AG was founded in 1998. The shares in KPS AG were authorised for regulated trading on the New Market on 15 July 1999. In 2002, the company switched to the stock exchange segment “Regulated Market” (General Standard). The company has been listed in the Prime Standard since December 2016.

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

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

1.1 Accounting principles

The Consolidated Financial Statements of KPS AG drawn up for the period up to 30 September 2022 were prepared in accordance with the regulations of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), London, and the interpretations of the IFRS Interpretations Committee (IFRIC). The version of the IASB relating to the Consolidated Financial Statements is in accordance with the view of the European Union, since all applicable standards and interpretations that have effects on the Consolidated Financial Statements were adopted by 30 September 2022.

The financial year of the Group deviates from the calendar year and extends from 1 October 2021 to 30 September 2022.

The Consolidated Financial Statements are prepared in euros (EUR). Unless noted otherwise, all amounts are stated in thousand euros (KEUR). Rounding can lead to figures in this report not adding up exactly to the specified sum, and percentages may not conform precisely to the figures shown. Besides the figures for financial year 2021/2022, the equivalent year-earlier figures are shown for comparison purposes. These are presented in brackets.

The income statement has been prepared in accordance with the total cost method. The presentation is unchanged compared to the previous year.

The Executive Board of KPS AG prepared the Consolidated Financial Statements on 13 January 2023 and presented them to the Supervisory Board. The Supervisory Board has the function of reviewing the Consolidated Financial Statements and declaring whether it approves them.

1.2 Amendments to IFRS Standards

The standards whose application was mandatory for the first time in financial year 2021/2022 had no material impact on the presentation of the asset, financial and earnings position of KPS.

The following standards published by the IASB with a potential impact on the IFRS Consolidated Financial Statements of KPS are not yet mandatory due to the fact that they have not yet been endorsed by the EU or the date of first-time application has not yet been reached.

Standard	Beschreibung	Anwendungszeitpunkt
AIP	Annual Improvements 2018-2020	1. Januar 2022
IFRS 3	Amendments to IFRS Business Combinations	1. Januar 2022
IAS 16	Amendments to IAS 16 Property, Plant and Equipment	1. Januar 2022
IAS 37	Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets	1. Januar 2022
IAS 1	Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement)	1. Januar 2023
IAS 8	Definition of Accounting Estimates	
	Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	1. Januar 2023
IAS 1	Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current – Deferral of Effective Date (Amendments to IAS 1 Presentation of Financial Statements)	1. Januar 2023
IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes)	1. Januar 2023

No significant impact is expected from the standards that are not yet mandatory.

The published amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback, which have not yet been endorsed by the EU, are not expected to have a material impact on the earnings, financial or asset position in the IFRS Consolidated Financial Statements of KPS.

2. PRINCIPLES AND METHODS, AND UNCERTAINTIES DUE TO ESTIMATES

2.1 The use of discretionary decisions and estimates

The management has to make certain assumptions and assessments in the Consolidated Financial Statements that can have significant influence on the presentation of the asset, financial and earnings position. Estimates are based on experiential figures and other assumptions that are regarded as appropriate under the specific circumstances. They are constantly reviewed but can deviate from the actual figures.

The main areas of application in which estimates are put to use are shown below:

Area of application	Balance sheet item	Uncertainties
Definition of useful life for non-current assets	Other intangible assets	Technical progress can exert an influence on the useful life
Calculation of completion status of fixed-price projects	Contractual assets / Contractual liabilities	Estimated total expense can deviate, as a result of this the completion status of projects can change, this would lead to a changed sales realisation
Calculation of discounted cash flows in the context of impairment tests and contingent purchase price obligations and purchase price allocations (fair value)	Goodwill Deferred tax assets on loss carryforwards	Assumptions in the underlying planning calculations are not made or only partly come into play
Formation and valuation of provisions	Non-current provisions	Assumptions in the underlying planning calculations are not made or only partly come into play Uncertainties regarding probabilities of occurrence and amount of the expected obligation
Valuation of receivables	Receivables	Assumptions about probabilities of default, customer creditworthiness and the change in the payment behaviour of customers

Acquired businesses are accounted for based on the acquisition method which requires that a valuation be 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 determination of 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 asset 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 undertaken in the context of the purchase price allocation can significantly influence the Group's future earnings.

The provision for bonus payments to the Vice Presidents of KPS was determined based on the premises that the persons entitled remain with 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.

Impairments are formed for doubtful receivables in order to take account of expected losses that result from the insolvency of customers. The basis for the assessment of the appropriateness of the impairments on receivables are the maturity structures of outstanding balances, experiences relating to the probability of default in respect of external customer ratings, the assessment of customer creditworthiness, and changes in payment behaviour.

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.

Planning for the following financial year is done at the project level. Projects that have already been contracted or are highly probable and potential client projects are planned.

The relevant estimates and assumptions made when the Consolidated Financial Statements for 30 September 2022 were prepared on the basis of the knowledge and information available at the time.

KPS assumed that the COVID-19 situation at the time would continue to ease. Correspondingly, the company assumes that the effects of the pandemic on the Consolidated Financial Statements will not be of fundamental, serious significance.

These factors can have an impact on the fair values and carrying amounts of assets and liabilities, the level and timing of earnings realisation and payment flows. It is possible that adjustments of assumptions and carrying amounts will be necessary in the next financial year. KPS presumes that the underlying assumptions appropriately reflect the situation at the time that the Consolidated Financial Statements were drawn up.

3. SCOPE OF CONSOLIDATION

The Consolidated Financial Statements include the legal and business parent company of the Group and all the domestic and foreign subsidiaries over which KPS AG exercises control of the financial and business policy in order to derive the corresponding benefit.

Subsidiaries are those companies over which KPS AG is able to exercise control or power of disposition, is exposed to a burden of risk as a result of fluctuating returns and can utilise this power of disposition to influence the level of the returns of the investment companies. 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 scope of consolidation commences on the date from which the possibility of control begins. Consolidation ends when control is no longer possible.

Besides KPS AG as the legal parent company, the scope of consolidation includes the following companies in which KPS AG holds a direct or indirect interest and are included in the Consolidated Financial Statements on the basis of full consolidation:

Shareholding	Registered office	Share in %	Currency	Subscribed capital 30.09.2022 (previous year)	Equity capital 30.09.2022 (previous year)	Result for the year 2021/2022 (previous year)
KPS Business Transformation GmbH (2)	Unterföhring	100	KEUR	0 (500)	0 (629)	0 (789)
KPS Consulting GmbH (1) (formerly: KPS Services GmbH)	Unterföhring	100	KEUR	6,300 (6,300)	7,324 (10,237)	-2,913 (1,072)
KPS Consulting Verwaltungs GmbH (1)	Unterföhring	100	KEUR	0 (26)	0 (39)	0 (0)
KPS Consulting GmbH & Co. KG (1)	Unterföhring	100	KEUR	0 (5,113)	0 (4,978)	0 (332)
KPS Consulting AG	Zurich/ Switzerland	100	KCHF	100 (100)	2,111 (1,603)	1,961 (1,453)
KPS Transformation GmbH (2) (formerly KPS Solutions)	Unterföhring	100	KEUR	80 (80)	-4,567 (-5,261)	-2,489 (-8,230)
KPS digital GmbH (2)	Dortmund	100	KEUR	0 (25)	0 (2,554)	0 (670)
KPS Consulting A/S	Virum/ Denmark	100	KDKK	500 (500)	34,290 (37,429)	3,271 (6,410)
KPS B.V.	Amsterdam/ Netherlands	100	KEUR	100 (100)	1,532 (1,597)	1,432 (1,497)
KPS Strategie-, Prozess- und IT-Consulting GmbH	Vienna/ Austria	100	KEUR	100 (100)	-1,198 (-532)	-666 (-447)
KPS Business and Digital Transformation, S.L.U.	Barcelona/ Spain	100	KEUR	59 (59)	3,873 (3,643)	1,583 (1,693)
Infront Consulting & Management GmbH (3)	Hamburg	100	KEUR	50 (50)	4,796 (4,796)	1,915 (972)
KPS Digital Ltd.	London/ United Kingdom	100	KGBP	0.2 (0.2)	3,940 (3,944)	2,346 (2,379)
KPS Consulting AS	Oslo/ Norway	100	KNOK	500 (500)	30,691 (11,385)	26,861 (9,087)
KPS Sweden AB	Stockholm/ Sweden	100	KSEK	500 (500)	-1,088 (-2,660)	-1,944 (-485)

¹ Per document list number 45 for the year 2022 (UVZ-Nr.45/2022 from 19 May 2022), the company KPS Consulting Verwaltungs GmbH (as the transferring company) merged with KPS Services GmbH (as the

acquiring company) on 1 October, 2021, and KPS Services GmbH was changed to KPS Consulting GmbH. KPS Consulting GmbH & Co. KG was dissolved and ended due to growth without liquidation.

² According to the list of documents number 46 for the year 2022 (UVZ no. 46/2022 of 19 May 2022), the company KPS Business Transformation GmbH (as the transferring company) merged with KPS Solutions GmbH (as the acquiring company) on 1 October, 2021. According to the list of documents number 44 for the year 2022 (UVZ-Nr.44/2022 dated 19 May 2022), the company KPS digital GmbH (as the transferring company) merged with KPS Solutions GmbH (as the acquiring company) on 1 October, 2021. KPS Solutions GmbH has been changed to KPS Transformation GmbH.

³ The profit for the year 2021/2022 was transferred to KPS AG in accordance with the profit transfer agreement concluded.

KPS AG did not have any non-consolidated subsidiaries, joint ventures or associated companies in the financial year or the comparative period.

The Consolidated Financial Statements are based on the Annual Financial Statements of the consolidated companies prepared on 30 September 2022 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. No audit was carried out for KPS Strategie-, Prozess- und IT-Consulting GmbH because the company did not have its own operating activity in the course of the financial year.

4. ACCOUNTING AND VALUATION PRINCIPLES

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 that are posted at fair value, such as derivatives and contingent purchase price obligations.

4.1 Currency translation

The functional currency and the reporting currency of KPS AG is the euro (EUR). Foreign currency transactions are recorded in euros on the transaction date at the exchange rate applicable on this date.

The Annual Financial Statements of fully consolidated subsidiaries, whose functional currency is not the euro, are converted on the basis of their local 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. This means that 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 recognised in the accumulated other earnings of equity not affecting profit or loss. The currency translation differences recognised in equity are released when a Group company leaves the scope of consolidation.

4.2 Revenue recognition

Revenue includes the provision of services, revenue from maintenance contracts and from the sale of software.

The realisation of revenues is recognised on the basis of the five-step model:

Step 1: 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.

Step 2: Identification of the independent performance obligation in the contract

As soon as the Group 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 standalone performance obligations. Goods or services are defined as standalone if the customer can derive a use from the goods or services promised 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.

Step 3: 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 that KPS Group is entitled to expect as consideration in exchange for the transfer of goods or services. The amount of the consideration must take the effects of variable remunerations, significant financing components, non-cash effective considerations and considerations payable to the customer into account. However, the Group has not identified any significant variable remunerations. KPS Group 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.

Step 4: Allocation of the transaction price to the performance obligations

The transaction price is allocated to each performance obligation in the amount that represents the amount of the consideration to which KPS Group is likely to be entitled. The rules for allocating the transaction price are 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 (standalone selling price).

Step 5: Recording revenues for fulfilment of the performance obligations

Revenue is recorded once the performance obligation has been fulfilled as a result of transfer of the goods or services promised to a customer. An asset is deemed to have been transferred when the customer has received the power of disposal over this 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 that 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 fulfilled at a specific time, the power of disposition over this asset is transferred to the customer at this point in time.

The following types of revenue and contracts exist at KPS Group:

Sale of goods and products

The revenue from the sale of software and hardware is recognised at the fair value of the consideration received or to be received without deduction of sales tax, and after deduction of rebate reductions and discounts granted. Furthermore, the amount of the revenue and the costs incurred or still to be incurred in connection with the sale must be reliably determined. Sales of goods are recorded when the significant risks and opportunities arising from the ownership of the goods are transferred to the customer. This is generally when the software and hardware are transferred to the customer. When software and hardware are sold there are generally performance obligations that have to be fulfilled at a specific time. A fixed consideration is generally agreed and does not include any variable components. Significant financing components are not usually included in contracts. The customer is invoiced when the revenue is recorded. As a rule, invoices are payable within up to 30 days.

Service contracts

Revenue from service contracts is 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 revenue is recorded on the basis of input-based methods for measurement of the progress of performance, 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 are recorded in connection 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 revenue is only to be recorded in the amount of the incurred order costs that are likely to be recoverable. Order costs are recorded as an

expense during the period in which they arise. If it is likely that the overall order costs will exceed the total order revenue, the expected loss is immediately recorded as expense. An expected loss from a service contract must be recorded as expense as soon as this loss appears probable. The customer is usually charged when the revenue is recorded. As a rule, invoices are payable within up to 30 days.

Licence agreements

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

Licence revenue for software updating and support is realised 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. Licence revenue for software updating and support is charged annually or quarterly in advance.

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 that the company would not have incurred without the conclusion of a contract with a customer in financial year 2021/2022.

4.3 Intangible assets

Research and development expenses

Research expenses are defined for accounting purposes as costs in connection with current or planned investigations that 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 expenses were incurred at KPS Group during the course of the financial year.

Scheduled amortisation on development expenses is carried out over the expected useful life in accordance with the straight line method. A review of the useful life and the amortisation method is carried out at the end of the financial year. In the financial year, the useful life of the capitalised development costs is assumed to be ten years.

Goodwill

Goodwill is recognised 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 amortisation, 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.

Reversals of impairment losses are strictly prohibited on written-down goodwill.

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) that is not goodwill. It is capitalised as an asset in accordance with IAS 38 if the criteria for the definition of an intangible asset are applicable and 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 recognised at acquisition or manufacturing costs. If they have a determinable useful life, they are amortised on a straight line basis over a period of up to 10 years, except where their actual depletion demands a different method of amortisation. Definition of the likely useful lives and the amortisation methods is based on estimates of the period of cash inflows from the intangible assets and their temporal distribution within this period. A review of the useful life and the amortisation method is carried out at the end of the financial year.

If there is an indication of a possible reduction in value, an impairment test is carried out. Details of the impairment tests are explained in the section on the method and effects of impairment tests.

If the reasons for unscheduled amortisation no longer exist, an appropriate write-up is carried out which does not exceed the amortised costs.

4.4 Property, plant and equipment

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

Acquisition costs comprise the acquisition price, the incidental acquisition costs, and the subsequent acquisition costs less any reductions received on the acquisition price.

Scheduled depreciation on property, plant and equipment is carried out by using the straight line method over the expected useful life, except where their actual depletion demands a method of amortisation 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, that have different useful lives are recognised and depreciated separately.

A review of the useful life and the amortisation method is carried out at the end of the financial year.

If an impairment is necessary, the details for this are described in the section on the procedure for and the effects of impairment audits.

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 carrying amount under other operating income or expenses.

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

4.5 Leasing agreements

4.5.1 Leasing activities of the Group and their accounting treatment

The Group leases various office buildings, business equipment and vehicles. Lease agreements are generally concluded for fixed periods of up to 13 years, but they can include extension options. Agreements can include leasing and non-leasing components. In the case of the lease agreements for office equipment and vehicles, the Group makes use of the option not to carry out any differentiation between leasing and non-leasing components, but to report the entire agreement as a lease agreement.

When an agreement is concluded, an assessment is carried out in order to determine whether the agreement is or contains a lease. An agreement is or contains a lease if the agreement transfers a right of use in relation to the asset (or assets) in exchange for consideration. In order to assess whether an agreement transfers the right to control the use of an identified asset, the following checks are carried out to ascertain whether:

- a) The agreement includes the use of an identified asset. This can be explicitly or implicitly determined and should be physically definable or should essentially represent the entire capacity of a physically definable asset. If the supplier has a material right to substitution, the asset is not identified as a lease;
- b) KPS has the right to benefit from the entire economic use arising from the use of the asset during the entire duration of use, and
- c) KPS has the right to determine how the asset is to be used. This right exists if there can be power of disposal over the decision-making rights which are most relevant for changing the type and manner as well as the purpose of the use of the asset. In rare cases, in which the decision is predetermined over how and for what purpose the asset is used, there is a right to determine the application of the asset, if:
 - KPS has the right to operate the asset; or
 - KPS has conceived the asset such that a determination has been made in advance as to how and for what purpose the asset is to be used.

When an agreement that includes a leasing component is concluded or reassessed, the consideration included in the agreement is allocated to each leasing component on the basis of its relative individual prices. In the case of leases for business equipment and vehicles for which KPS is the lessee, a decision was made not to differentiate between non-leasing and leasing components and instead to report each leasing component and all the associated non-leasing components as a single leasing component.

KPS records a right of use and a leasing liability on the delivery date defined in the lease. The right of use is initially assessed on the basis of acquisition costs. These result from the initial amount of the leasing liability, adjusted by any lease payments before or on the delivery date defined in the lease, plus any direct costs incurred initially and an assessment of the costs for dismantling, removal, or reinstatement of the underlying asset or the location in which the asset is located, and less any leasing incentives included.

Rights of use are assessed at acquisition cost, which is comprised as follows:

- the amount of first-time valuation of the leasing liability
- all lease payments made at or before delivery less all/any leasing incentives received
- all the initial direct costs incurred by the lessee and

- any estimated costs incurred by the lessee for disassembly or removal of the underlying asset when the location on which the assets are situated is reinstated or when the underlying asset is restored to the condition required under the lease agreement.

The depreciation of the right of use is carried out on a straight line basis from the date of delivery either until the end of its duration of use – or, if this falls earlier – until the end of the term of the lease. The estimated durations of use for assets with a right of use are determined on the same basis as rights of use for property, plant and equipment. Furthermore, the right of use is regularly reduced by any impairments and is appropriately adjusted in the case of any revaluations of the leasing liability.

On the delivery date, the leasing liability is assessed at the cash value of the lease payments not yet made on this date, discounted with the underlying interest rate defined in the lease or, if this rate cannot be easily determined, with the incremental borrowing rate of the Group. Generally, the incremental borrowing rate is applied as the discount rate. In order to determine the incremental borrowing rate, the Group uses conditions of finance borrowed from third parties.

The lease payments to be taken into account for the valuation of the leasing liability are comprised as follows:

- Fixed payments;
- Variable leasing instalments which are linked to an index or (interest) rate and whose first-time valuation is carried out on the basis of the index or (interest) rate applicable on the delivery date;
- Amounts that are likely to have to be paid to the lessee in the context of residual guarantees;
- The exercise price of a purchase option, if it is sufficiently certain that this will actually take place, lease payments of an optional extension period, if it is sufficiently certain that the extension option will be exercised;
- Penalty payments for any premature termination of the lease, unless it is sufficiently certain that notice of termination will not be served prematurely.

The leasing liability is assessed at amortised cost using the effective interest method. A revaluation is carried out if future lease payments change on account of a change in the index or interest rate, or if the judgement changes in relation to the amount that is likely to have to be paid in the context of a residual value guarantee, or if the judgement changes as to whether a purchase, extension or termination option will be exercised. If a revaluation of the leasing liability is carried out, a corresponding adjustment of the carrying amount for the value in use is carried out or is recorded in the income statement if the carrying amount of the value in use has been reduced to zero.

Rights of use and leasing liabilities are recognised in the balance sheet as separate balance sheet items.

Depreciation is carried out on a straight line basis over the estimated period of use of the assets or the shorter leasing term as follows:

	Years
Buildings	4 - 13
Vehicles	2 - 4
Office equipment	2 - 6

The Group is exposed to potential future increases in variable lease payments that may arise from a change in an index. These possible changes in leasing instalments are not included in the leasing liability until they become effective. As soon as changes occurring in an index or interest (rate) have an impact on the leasing instalments, the leasing liability is adjusted with respect to the right of use. Leasing instalments are classified into repayments and interest payments. The interest portion is recognised through profit or

loss over the term of the lease so as to produce a constant periodic interest rate on the remaining balance of the liability for each period.

4.6 Procedure for and effects of impairment audits

Besides the impairment tests for individual assets of 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 that generate cash inflows largely independently of other assets or groups of assets. The allocation to the individual CGUs is based on internal management guidance.

The Group carries out an annual audit in order to ascertain whether goodwill has undergone impairment. The audit determined the recoverable amount of the cash-generating units on the basis of value-in-use calculations that require the use of assumptions. The cash generating units were valued in their current use. The calculations use cash flow forecasts that are based on the financial plans approved by the Executive Board and generally cover a period of four years. This planning is based on assumptions with regard to macroeconomic developments and the development of selling and procurement prices for the individual projects in particular. Besides these current forecasts, past developments and experience are also taken into account. In addition to the perpetual annuity and the capitalisation interest rate, the main assumptions are the realisation of the planned projects and the expected developments in the regions in which KPS operates. The expected effects of the systematic further development of industrialisation, i.e. the increased marketing of E2E use cases and entire platforms, are included in the planning of margin development. The above-average increase in purchasing costs for consulting services in financial year 2021/2022 and the likewise increased personnel costs will be partially passed on to clients; as a result, KPS expects an improvement in the margin situation in the planning period. COVID-19 and the Ukraine war could lead to uncertainties regarding the willingness of current and potential new customers of KPS to invest, so that individual projects will be paused or the start of new projects will be affected.

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 for the three cash-generating units was 7.74% (previous year: 7.00%) on the balance sheet date. Specific country risks were weighted in the capital cost rate. When calculating the perpetual annuity, a growth factor of 1% was used on the determined capital cost rate.

4.7 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 assets 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 recognised 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 amortised cost, or as not affecting income at fair value. When financial assets are recognised 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. KPS defines the classification of its financial assets with the first-time application and reviews this allocation at the end of each financial year insofar as this is permissible and appropriate.

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

Financial assets valued at amortised cost (debt instruments)

This category has the most importance for the Consolidated Financial Statements. The financial assets are valued at amortised cost if the two following conditions are fulfilled:

- The financial asset is held as part 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 asset lead to cash flows on defined dates that are exclusively repayment and interest payments on the existing capital amount.

Financial assets measured at amortised cost are assessed using the effective interest method and must be reviewed for impairments. Gains and losses are recorded in the earnings for the period when the asset is derecognised, 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 essentially based on historic experiences with credit losses and current data on long-overdue receivables. In addition, outstanding receivables are continuously monitored at the 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. The simplified model for determining risk provision ("Expected Credit Loss Model") is applied for the expected credit default arising from trade receivables, according to which the credit loss is calculated on the basis of the total term of the financial asset. If there are objective indications of a credit default, an individual impairment is carried out for the corresponding receivables. The risk provision for the expected credit losses is calculated on non-impaired receivables on the basis of the maturity profile for trade receivables specific to the particular customer group. These are grouped in tiers classified according to level of risk and arrears. The historic default rates applied for this are adjusted by forward-looking information such as economic market conditions and general future risks. In individual cases, trade receivables continue to be subject to individual impairment, to the extent that substantial financial difficulties are encountered by customers or there is a breach of trust, for example in the case of default of payments.

The financial assets of the Group assessed at amortised 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)

Debt instruments are measured at fair value in other earnings with no effect on income if the two following conditions are fulfilled:

- The financial asset is held as part 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 to cash flows on defined dates 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 amortised 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)

Upon first-time recognition, KPS 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 costs of the financial asset is recovered through the dividends. In this case, the gains are recorded in other earnings.

Cash and cash equivalents

Cash and cash equivalents comprise 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.

Derecognition of financial assets and financial liabilities

The financial assets are derecognised 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 KPS essentially neither transfers nor retains all the risks and opportunities associated with ownership of the asset and continues to have power of disposal over the transferred asset, KPS records the remaining share as an asset and a corresponding liability relating to the amounts probably payable is recognised. If KPS essentially retains all the risks and opportunities associated with the ownership of a transferred financial asset, the company continues to recognise the financial asset and a collateralised loan in respect of the retained consideration.

The financial liabilities are derecognised 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 carrying amounts is recorded in profit or loss.

Derivative financial instruments

Derivative financial instruments are used for hedging purposes. KPS 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 recognised 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 recognised 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) currently used 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 recognised in the income statement on first-time reporting and in subsequent accounting periods. Gains or losses arising from fluctuations in fair value are recognised immediately in the income statement with an effect on earnings.

Financial liabilities

At first-time recognition, financial liabilities are classified as financial liabilities that 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.

Upon 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 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 recognised 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. The earn-out obligations as of 30 September, 2022, are due within one financial year and were therefore measured at fair value. In reporting year 2021/2022, income amounting to KEUR 525 (previous year: expense KEUR 89) from the revaluation of these obligations was recognised in the income statement as profit or loss.

Follow-up evaluation

The subsequent valuation of financial liabilities depends on their classification as follows:

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 recognised directly in the income statement.

Loans are recognised for the first time at fair value less transaction costs. In the scope of subsequent valuation, loans are measured at amortised cost in accordance with the effective interest method, if the liabilities are derecognised. Gains and losses are recognised with an effect on income if the liabilities are derecognised, also within the framework of amortisations using the effective interest method.

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

Derecognition

A financial liability is derecognised 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 carrying amounts is recorded in profit or loss.

4.8 Income taxes

Income taxes are recognised 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 recognised 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 (or effectively permanent) 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 realisable. Deferred tax assets relating to deductible temporary differences, tax credits and tax loss carryforwards are recognised to the extent that it is sufficiently probable that a taxable benefit will arise in the future.

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

Deferred taxes are calculated at the tax rates that are expected to apply in the individual countries at the point of realisation. The rates are based on the 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, if there is an overhang of deferred tax assets. 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 recognised under income.

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

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

On each balance sheet date, an assessment is carried out to ascertain whether the realisation 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 that arise from the available tax strategies and the future taxable income, and taking additional positive and negative factors into account. The recognised deferred tax assets might 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 realisable future tax benefits.

4.9 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.

4.10 Share-based payment

The Group has established a share-based participation programme ("Long Term Incentive Plan 2022," in short "LTIP 2022") for certain executives of the parent company and/or its subsidiaries. The LTIP 2022 has a term from 1 October 2021 to 30 September 2026. The LTIP 2022 serves to provide targeted incentives and at the same time is intended to achieve a binding effect on the participants to the KPS Group. The Group reserves the right to choose to settle the payment claims resulting from the LTIP 2022 either in cash and/or in shares of KPS AG.

For each financial year relevant in the LTIP 2022, a separate profit sharing fund ("PSF") is formed, in which a certain number of virtual KPS shares are arithmetically held. This is the number of shares (notionally) allocated to the PSF for each financial year to be included. The starting point for the calculation of the total number of shares is the "allocation amount." The allocation amount corresponds to the company- or Group-related share of the employee's annual target incentive (in EUR). The respective number of shares of each individual employee is calculated by dividing the allocation amount by the "share base price." The share base price is the amount of the volume-weighted average closing price of the KPS share in Xetra trading on the Frankfurt Stock Exchange or a comparable successor segment (together "Xetra trading") in the respective calendar month in which the Annual Financial Statements of KPS AG are adopted. Currently, this is generally the month of January. An employee's claim to payment of a monetary amount equal to the value of the base number of shares multiplied by the final share price results in the grant maturity. KPS AG may, at its discretion, settle the claim to the LTI bonus in whole or in part by delivering physical KPS shares instead of cash. Allocation maturity generally occurs if the employee has

not already left KPS Group before the end of the third financial year after the financial year for which the number of shares was determined (vesting period). The LTI bonus is paid in the fourth financial year after the financial year of the allocation to the respective PSF in the calendar month after the Annual General Meeting of KPS AG for the financial year of KPS AG immediately preceding the respective fourth year.

The allocation amounts are estimated at the time of granting, taking the conditions under which the participation programme was granted into account. In estimating the amount, the Group makes certain assumptions, including the expected amount of the subscription rights. The final payout amount for these awards depends on the achievement of KPS Group's financial ratios. The estimate is mainly influenced by the expected amount of future Group EBIT. The allocation is made ratably over the term of the LTIP 2022. During the term, only a changed estimate with regard to the quantity structure is taken into account. The Group accounts for the LTIP 2022 as an equity-settled plan, as cash settlement is not currently planned.

Expenses of KEUR 221 were booked against the capital reserve for the equity-settled share-based payment in financial year 2021/2022 .

4.11 Provisions

Provisions are formed for current, legal or factual obligations that result from events in the past that are likely to lead to a future outflow of economic resources (with a probability greater than 50%) and the amount of which cannot be reliably estimated.

Provisions are assessed in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) or as necessary in accordance with IAS 19 (Employee Benefits). Where cash outflows to settle obligations with a term of more than one year are anticipated, the provisions are recognised at the cash value of the expected cash outflows.

Reimbursement claims receivable from third parties are capitalised separately from the provisions as other receivables if their realisation 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 areas in which the original charge was recognised when the provision was formed.

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

Provisions are recognised for litigation suits in the balance sheet in respect of pending or future litigation, subject to an appropriate case-by-case examination.

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

4.12 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 financial year. The net interest income or expenses for a financial year are calculated by multiplication of the discount rate for the relevant financial year by the net asset value or the net obligation on the balance sheet date of the previous financial 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 recognised. If the obligations are covered by the plan assets, the company offsets the fair value of the plan assets with the DBO and capitalises 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 that 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 that 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 may therefore lead to a significant change in the pension and similar obligations and to the associated future expense.

4.13 Company acquisitions

Company mergers have been reported on the basis of the acquisition method in accordance with IFRS 3. 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 recognised at the date of the acquisition, are recorded under expenses.

4.14 Principles of consolidation

Capital consolidation is carried out in compliance with IFRS 10 Consolidated Financial Statements. The proportionate shareholders' equity of the subsidiary company is offset with the investment book value of the parent company at the date of first-time consolidation.

The effects of business transactions within the Group are eliminated in the form of liability and expense and income consolidation. An interim earnings elimination is also carried out.

The principles of consolidation applied did not change compared to the previous year.

5. PROFIT AND LOSS ACCOUNT – EXPLANATORY NOTES

5.1 Revenues

Sales revenues include the fees charged to customers for goods and services, less sales deductions and discounts.

Revenues derived from the provision of services and maintenance are time-limited, the sale of software and hardware is realised 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.

Please refer to the segment report in relation to allocation of revenues to individual segments.

Revenues are allocated to the individual sales generators as follows:

	Year under review 2021/2022		Year under review 2020/2021	
	KEuro	%	KEuro	%
Provision of services	177,432	98.8%	155,149	98.2%
Sales of software	11	0.0%	263	0.2%
Maintenance	2,083	1.2%	2,567	1.6%
Total revenues	179,526	100%	157,979	100%

In financial year 2021/2022, revenues amounting to KEUR 196 (previous year: KEUR 200) were recognised that relate to incoming payments from earlier periods.

No significant revenues arising from performance obligations, which were fulfilled in previous periods, were recorded in financial year 2021/2022.

Transaction prices result from maintenance contracts with a residual term of up to 4.7 years, which were not yet recognised as revenues. The likely revenues to be recorded are distributed as follows:

	Year under review 2022/2023	Year under review 2023/2024	Year under review 2024/2025	Year under review 2025/2026	Year under review 2026/2027	Total
in KEUR						
Revenues likely to be recognized	2,024	1,046	588	588	392	4,638

5.2 Own work capitalised

No internally generated intangible assets were capitalised in the financial year (previous year: KEUR 950).

5.3 Other operating income

The breakdown of other operating income is shown in the following table:

	Year under review 2021/2022	Year under review 2020/2021
	KEUR	KEUR
Income from release of provisions	4	177
Income from discounts	177	192
Income from exchange-rate differences	121	216
Income from release of earn-out obligations	0	283
Income from subleasing	320	236
Other income	206	83
Total other operating income	828	1,186

5.3.1 KPS as the lessor

KPS AG has sublet parts of an office building it had rented. As a result, it has entered into a sub-lease, whereby the company operates as a lessor. The leases have been classified as operating leases. The leasing income for financial year 2021/2022 amounted to KEUR 259 (previous year: KEUR 192).

Subletting is the letting of unused office space. This is the only circumstance in which the company operates as lessor. The company secures itself against all claims against the tenants by means of a deposit in the form of a bank guarantee. One lease agreement ended in October 2022; for the lease agreement commenced on 1 January 2022, a special right of termination exists for the first time at the end of three full years by observing a notice period of 12 months.

The rental income expected to be recognised in subsequent years is distributed as follows:

in KEUR	30/09/2022	30/09/2021
until one year	77	192
from 1 to 2 years	81	10
from 2 to 3 years	81	0
from 3 to 4 years	81	0
from 4 to 5 years	20	0

5.4 Cost of materials

Cost of materials amounted to KEUR 63,809 (previous year: KEUR 52,583) and included expenses for hardware and software purchased amounting to KEUR 1,313 (previous year: KEUR 2,226) and expenses for services purchased amounting to KEUR 62,496 (previous year: KEUR 50,357).

5.5 Personnel expenses and employees

Personnel expenses in the year under review amounted to KEUR 75,090 (previous year: KEUR 69,941). Wages and salaries accounted for KEUR 67,212 (previous year: KEUR 61,822) and social security expenses for KEUR 7,877 (previous year: KEUR 8,119).

The expenses for defined benefit pension plans included in personnel expenses amounted to KEUR 111 (previous year: KEUR 114).

On average, there were 682 employees (previous year: 614) (not including members of the Executive Board and Managing Directors) over the year, of which 589 (previous year: 517) were consultants and 82 (previous year: 97) administrative employees.

	30.09.2022	30.09.2021	Change
Employees by region			
Germany	508	459	49
Spain	94	75	19
England	78	75	3
Denmark	17	18	-1
Switzerland	6	5	1
Austria	8	5	3
Netherlands	5	3	2
Norway	3	3	0
Sweden	6	4	2
Total	725	647	78
Employees by function			
Executive Board	1	1	0
Managing Directors	9	12	-3
Consultants	632	529	103
Administration	79	101	-22
Apprentices	4	4	0
Total	725	647	78

5.6 Other operating expenses

The breakdown of other operating expenses is shown in the following table:

in KEUR	Year under review 2021/2022	Year under review 2020/2021
Purchased services	4,875	4,364
Legal and consulting costs	973	1,427
Personnel recruitment and advanced training	1,723	1,408
Travel and hospitality costs	3,158	1,395
Premises costs	1,323	1,233
Vehicle costs	1,391	1,128
Valuation allowance for receivables	887	429
Advertising and marketing costs	1,551	796
Telephone and other communication costs	583	564
Insurance policies	382	305
Expenses for revaluation of earn-out obligations	525	194
Capital market costs	238	217
Currency translation differences	0	443
Hire costs for operating and business equipment	14	56
Other expenses	2,179	1,986
Total other operating costs	19,802	15,945

5.7 Depreciation and amortisation

Depreciation and amortisation for the financial year amounted to a total of KEUR 7,344 (previous year: KEUR 8,239). KEUR 1,871 of this amount (previous year: KEUR 2,319) are attributable to amortisation and depreciation for property, plant and equipment, and intangible assets, KEUR 733 (previous year: KEUR 898) to amortisation and depreciation on order backlog and customer relations, and KEUR 4,740 (previous year: KEUR 5,022) to amortisation on rights of use.

The amortisation of intangible assets includes unscheduled amortisation of internally generated assets amounting to KEUR 142 (previous year: KEUR 352). The unscheduled depreciation was carried out on self-produced process lines with low sales figures as well as process lines that are no longer used. The depreciated process lines are allocated to the Management Consulting/Transformation Consulting segment.

In the case of depreciation and amortisation on order backlog and customer relations, these are assets that were recognised as part of purchase price allocations and earlier transactions. This amortisation and the operating result (EBIT) before this depreciation and amortisation are recognised separately in the income statement in order to show the effect of the acquisitions separately.

5.8 Financial result

Other financial income amounted to KEUR 16 (previous year: KEUR 9) and resulted from discounting of non-current liabilities.

The breakdown of other financial expenses is shown in the following table:

in KEUR	Year under review 2021/2022	Year under review 2020/2021
Revaluation of earn-out liabilities	138	451
Interest expenses leasing liabilities	151	159
Interest and guarantee fees to banks	721	355
Compounding of non-current provisions	7	17
Total other operating costs	1,017	982

5.9 Income taxes

Income taxes are shown in the following table:

in KEUR	2021/2022	2020/2021
Current tax expense	-3,752	-4,407
Tax expense for previous years	5	0
Deferred tax expenses	-10	699
Income taxes	-3,757	-3,708

Deferred taxes relate to tax loss carryforwards and time-related differences of recognised values between the tax balance sheets of individual companies and the values recognised in the Consolidated Statement of Financial Position in accordance with the liability method.

On 30 September 2022, tax loss carryforwards amounted to KEUR 20,536 (previous year: KEUR 17,561) for corporate income tax and KEUR 32,272 (previous year: KEUR 25,445) for trade tax.

In order to calculate deferred taxes, the local tax rates of the affected national countries were applied. These are between 19.0% and 32.3%.

The amount of unusable tax losses for which no deferred tax asset was recognised amounted to KEUR 8,775 (previous year: KEUR 5,888) for corporate income tax and KEUR 16,285 (previous year: KEUR 19,313).

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 29.9% (previous year: 29.9%) 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 15.8% (previous year: 15.0%) and trade tax amounting to 14.0% (previous year: 14.1%).

in KEEUR	2021/2022	2020/2021
Annual profit before income taxes	13,307	12,435
Income tax rate	29.9%	29.9%
Expected nominal tax expense	-3,973	-3,718
Tax consequences resulting from:		
Tax effects on account of tax carryforwards	701	522
Tax effects on account of non-deductible operating expenses, goodwill write-downs and other tax modifications	-1,548	-268
Deferred taxes on loss carryforwards	579	171
Deferred taxes on account of HB II (commercial balance sheet II) adjustments / StB (tax balance sheet effects)	589	-527
Deviations of local tax rates from the average income tax rate	71	110
Tax effects relating to other accounting periods	0	0
Other effects	-175	2
Actual income tax expense	-3,757	-3,708
Effective tax rate	28.2%	29.8%

The deferred tax assets and liabilities are shown in the following table:

in KEUR	30.09.2022		30.09.2021	
	Assets	Liabilities	Assets	Liabilities
Loss carryforwards	3,843	0	3,309	0
Pension provision	122	0	128	0
Other provisions	26	340	88	185
Trade receivables	129	7	299	30
Rights of use/ Leasing liabilities	9	147	9	317
Contract assets	0	492	301	620
Fixed assets	32	340	467	708
Other items	15	65	0	0
Total	4,177	1,392	4,601	1,860

Deferred tax assets amounting to KEUR 4,055 (previous year: KEUR 2,251) have a term of more than one year. Of the deferred tax liabilities, KEUR 800 (previous year: KEUR 1,001) are non-current and KEUR 591 (previous year: KEUR 859) are current.

Deferred tax assets amounting to KEUR 67 (previous year: KEUR 25) relate to actuarial gains and losses on pension provisions and are recognised directly in other comprehensive income.

5.10 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 financial year. There were no dilution effects in the current year.

Over the entire financial year, KPS AG did not have any treasury shares in its portfolio. Consequently, the average number of shares in free float amounted to 37,412,100.

6. BALANCE SHEET – EXPLANATORY NOTES

6.1 Property, plant and equipment

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

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

6.2 Goodwill and other intangible assets

The item includes software and related licences, which were partly self-developed and also purchased against payment.

	Years
Software	3 - 10
Licences	5

No development costs that meet the criteria of IAS 38.57 were capitalised in the financial year (previous year: KEUR 950). The development costs are written down for the projected useful life of up to 10 years as soon as the assets can be used.

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

Consequently, goodwill in KPS Group is monitored at the level of the three business segments that were identified as cash-generating units.

The goodwill recognised amounted to KEUR 62,546 (previous year: KEUR 62,546) and is allocated to the following cash-generating units:

in KEUR	30/09/2022	30/09/2021
Management consulting/Transformation consulting	62,081	62,081
System Integration	120	120
Products/ Licenses	345	345
Total	62,546	62,546

The annual impairment tests for goodwill were carried out on 30 September. There was no need for impairment in financial year 2021/2022.

6.3 Deferred tax assets

Deferred tax assets amounted to KEUR 4,177 (previous year: KEUR 4,601) and essentially reflect the level of tax loss carryforwards of KPS AG, KPS Consulting GmbH and KPS Transformation GmbH that are likely.

6.4 Contractual assets

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 capitalised as contractual assets. Amounts recognised as a contractual asset in the amount of KEUR 3,180 (previous year: KEUR 6,036) are transferred to trade receivables at the point when an invoice is issued to the customer. Contractual assets generally fall due within one year.

KPS determines the impairment on contractual assets in the amount of the expected losses over the remaining term taking the receivables arising from historic default experience and the future prospects in the IT services sector into account.

There were no changes in the assessment methods or the important assumptions in relation to determining the impairments during the current reporting period with the exception of the impairment ratio.

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 with regards to the different customer segments, no distinction is made between the different customer groups within the Group with regard to the impairment based on arrears.

in KEUR	2021/2022	2020/2021
Impairment ratio	0.60%	0.56%
Estimated book value on default	3,199	6,070
Amounts not overdue	3,199	6,070
Losses expected over the residual term	19	34
Net book value	3,180	6,036

6.5 Trade receivables

Receivables are recognised after deduction of allowances for doubtful items. The following table shows the trade receivables on the balance sheet date:

in KEUR	30/09/2022	30/09/2021
Trade receivables	43,751	36,065
Individual valuation allowances	-941	-1,372
Allowances for expected credit losses	-218	-193
Total Trade receivables	42,592	34,500

6.6 Other receivables and financial assets

The following table shows the breakdown of other receivables:

in KEUR	30/09/2022	30/09/2021
Advance payments	2,041	1,399
Deposit payments	161	238
Creditor accounts in debit	412	104
Refund claims from foreign input taxes	55	22
Receivables from employees	940	0
Other receivables	254	77
Total other assets	3,864	1,840

6.7 Entitlements to income tax rebates

On the balance sheet date, entitlements arising from income tax amounted to KEUR 1,697 (previous year: KEUR 1,127).

6.8 Cash and cash equivalents

Bank balances and cash in hand amounted to KEUR 6,058 (previous year: 8,060) on the balance sheet date. The development of liquid funds is shown in the cash flow statement.

6.9 Shareholders' equity

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

6.9.1 Subscribed capital

The subscribed capital of KPS AG amounted to EUR 37,412,100 (previous year: EUR 37,412,100) and takes the form of a total of 37,412,100 no-par shares (previous year: 37,412,100 no-par shares) each with a nominal value of EUR 1.00. The capital stock is fully paid up.

No own shares (treasury shares) were purchased or sold in the financial year. No treasury shares were held (previous year: 0 shares) on the reference date.

6.9.2 Authorised Capital

The authorisation for the creation of Authorised Capital 2020/I approved by the Annual General Meeting on 25 September 2020 was cancelled by resolution of the ordinary Annual General Meeting held on 21 May 2021. Instead, authorised capital 2021/I was created in the amount of EUR 18,706,050.00.

As a result of this resolution, the Executive Board is empowered with the consent of the Supervisory Board to increase the share capital up until 24 September 2025 (including) once or more than once up to nominally EUR 18,706,050.00 against cash and/or non-cash contributions by issuing new ordinary registered no-par-value shares (no-par shares), subject to the possible exclusion of shareholders' pre-emptive rights.

There was no change in Authorised Capital 2021/I in financial year 2021/2022.

6.9.3 Contingent Capital

The resolution passed by the ordinary Annual General Meeting held on 25 September 2020 increased the share capital by up to EUR 2,000,000 ordinary registered no-par-value shares (Contingent Capital 2020/I). The Contingent Capital increase serves exclusively for the purpose of granting share option rights. The Executive Board was authorised to issue such rights up until 24 September 2025.

6.9.4 Capital reserve

The negative opening balance resulted mainly from the reverse acquisition carried out in financial year 2007/2008 in the course of reporting the share capital of KPS AG. Furthermore, the differences between the prices of the new shares issued on account of the increase in the share capital and the treasury shares transferred and their nominal values were transferred to the capital reserve.

in KEUR	2021/2022
Balance on 30.09.2020	-10,222
Capital gain from sale of treasury shares	0
Share premium on capital increase	0
Balance on 30.09.2021	-10,222
Capital gain from sale of treasury shares	0
Share based payment management	221
Share premium on capital increase	0
Balance on 30.09.2022	-10,001

6.9.5 Retained earnings

The retained earnings came into being because the vesting period for the share option programme from 2004 ended in financial 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 or expiry of the exercise right, for example, 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 EUR 3,000,000 was made to other retained earnings. On the basis of a resolution adopted by the Executive Board and the Supervisory Board, an amount of EUR 1,000,000 was transferred from net income for the year before taxes 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 EUR 3,401,100 from retained earnings was converted to share capital.

6.9.6 Other earnings

Other earnings are comprised of the obligation arising from a fully insured BVG Plan of KPS Consulting AG, Zurich, Switzerland, and from translation differences arising from financial statements that were denominated in a foreign currency:

in KEUR	30.09.2022	30.09.2021
Items not classified in the income statement:		
Change in actuarial profits (losses) from pension plans	360	167
Items that will not be reclassified in the income statement in future:		
Exchange-rate differences	-53	72
of which changes in unrealized gains/losses	-35	87
of which realized gains/losses	-18	-15
Other comprehensive income before taxes	307	239
Taxes on other earnings	67	25
Other earnings after taxes	374	264

6.9.7 Group net profit

The development of Group net profit recognised on 30 September 2022 is shown in the table below:

in KEUR	2021/2022	2020/2021
Balance on 01.10.	40,902	38,535
Earnings after income taxes	9,550	8,727
Share premium on treasury shares	0	0
Allocation to other retained earnings	0	0
Dividend payout	-7,108	-6,360
Balance on 30.09.	43,345	40,902

Prior to publication of the financial statements, the Executive Board proposed a dividend of EUR 0.19 for each share entitled to a dividend payment.

6.9.8 Treasury shares

The resolution adopted by the Annual General Meeting on 21 May 2021 and the substitution of the resolution by the Annual General Meeting on 25 September 2020 provided the authorisation to acquire and dispose of the company's own shares with the option of excluding subscription or other option rights to offer shares. According to this, the Executive Board is authorised with the approval of the Supervisory Board to acquire and dispose of its own shares up to a total amount of 10% of the share capital 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 midnight on 20 May 2026. 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. No shares were purchased or sold in financial year 2021/2022.

6.10 Non-current provisions

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

in KEUR	01.10.2021	Utilization	Release	Addition	30.09.2022
Provision for personnel	1,461	-632	0	322	1,151
Provision for partial retirement	36	0	0	228	264
Provision for pensions	429	-159	0	0	271
Total	1,925	-790	0	551	1,685

Non-current provisions for personnel mainly comprise obligations for bonus payments arising from a long-term management loyalty programme. When the obligation for bonus payments 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 is to 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. The retirement age is 65 years (for men) and 64 years (for women). No other benefits for employees are provided after termination of the employment relationship. The benefit entitlements of the employees are partly covered by plan assets. Plan assets are managed by AXA Stiftung Berufliche Vorsorge (AXA Foundation for Occupational Pension Provision) in Winterthur, Switzerland.

AXA Stiftung Berufliche Vorsorge guarantees the coverage necessary under Swiss law. All risks such as disability or death are covered. One of the main risks identified was notice of termination or non-extension of the retirement provision plan by AXA Stiftung Berufliche Vorsorge. 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 coverage or entail additional premiums.

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

in KEUR	2021/2022	2020/2021
1. Actuarial assumptions IAS 19.144		
Discount rate (DR) as at 01.10.	0.2 %	0.2 %
Discount rate (DR) as at 30.09.	2.2 %	0.2 %
Interest rate on retirement assets as at 30.09.	2.2 %	0.5 %
Future salary increases (SI) as at 30.09.	2.0 %	1.5 %
Future pension increases (PI) as at 30.09.	0.0 %	0.0 %
Future inflation as at 30.09.	2.0 %	0.5 %
Mortality tables	BVG2020 GT	BVG2020 GT
Date of the last actuarial valuation	30/09/2020	30/09/2019
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	2,821	2,773
Capital value from plan assets as at 30.09	2,476	2,343
Deficit/(surplus) as at 30.09	345	429
Net debt from defined benefit pension plans (assets) as at 30.09.	345	429
of which recognized as separate liability	345	429
3. Components of defined benefit costs in the income statement IAS 19.140		
Current Service Cost (employer)	108	112
Expenses from compounding of defined benefit obligations	6	5
Interest (income) from plan assets	-5	-4
Administrative costs plus costs for administration of plan assets	2	1
Components of the defined benefit costs recognized in the income statement	111	114
of which service and administrative costs	110	113
of which net interest on the net debt from defined benefit pension plans (asset)	1	1
4. Components of defined benefit costs in OCI IAS 19.140		
Actuarial (gain)/loss on the cash value of the defined benefit obligation	-519	-101
Income from plan assets plus interest income	352	-156
Components of the defined benefit costs recognized in the OCI	-167	-258
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	486	649
Components of the defined-benefit costs recognized in the income statement	111	114
Components of the defined-benefit costs recognized in the OCI	-167	-258
Contributions by the employer	-85	-77
Components of the defined-benefit costs recognized in the OCI	345	429

in KEUR	2021/2022	2020/2021
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	3,141	2,630
Expenses of the cash value of the defined-benefit obligation	6	5
Current Service Cost (employee)	108	112
Contributions by plan participants	85	77
(Paid-out)/paid-in benefits	-2	49
Administrative costs (plus costs for administration of plan assets)	2	1
Actuarial (gain)/loss on the cash value of the defined benefit obligation (settlement amount)	-519	-101
Cash value of the defined benefit obligation as at 01.10	2,821	2,773
7. Components of actuarial gain/loss on obligations IAS 19.141	-631	0
Actuarial (gain)/loss on account of amendments to demographic assumptions	0	-140
Actuarial (gain)/loss on account of expectancy value adjustments	112	39
Actuarial (gain)/loss from the cash value of the defined benefit obligation	-519	-101
8. Development of the capital value from plan assets IAS19.140 (a), IAS 19.141		
Capital value from plan assets as at 01.10	2,654	1,980
Interest income from plan assets	5	4
Contributions by the employer	85	77
Contributions by the plan participants	85	77
(Paid-out)/paid-in benefits	-2	49
Income from plan assets plus interest income	-352	156
Capital value from plan assets as at 30.09.	2,476	2,343
8a. Actual income from plan assets		
Interest from income from plan assets	5	4
Income from plan assets plus interest income	-352	156
Actual income from plan assets	-346	161
9. Components of the economic benefit available IAS 19.141 ©		
Economic benefit available in the form of a reduction in future contributions	0	11,585
Total economic benefit available	0	11,585
9a. Recognizable amount under IAS 19.64		
(a) Deficit/(surplus) in the defined benefit plan		
- Cash value of the defined benefit obligation	-2,821	-2,773
+ Fair value of the plan assets	2,476	2,343
Deficit/surplus (+ = asset value; - = liability)	-345	-429

in KEUR	2021/2022	2020/2021
(b) Upper limit, economic benefit available	0	11,585
Recognizable amount (lower than (a) and (b) if asset)	-345	-429
10. Estimate of the contributions from next year IAS 19.147 (b)		
Contributions by employees	85	72
Contributions by plan participants	85	72
11. Plan asset classes (non-listed price) IAS 19.142		
Cash and cash equivalents	24	59
Equity instruments	810	841
Debt securities	839	855
Real estate	714	524
Other	89	64
Total interest income on the capital value (non-listed price)	2,476	2,343
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 %	2,926	2,904
DBO as at 30.09. with DR +0.25 %	2,724	2,651
DBO as at 30.09. with IR -0.25 %	2,776	2,723
DBO as at 30.09. with IR +0.25 %	2,868	2,823
DBO as at 30.09. with SI -0.25 %	2,812	2,756
DBO as at 30.09. with SI +0.25 %	2,831	2,788
DBO as at 30.09. with life expectancy + 1 year	2,858	2,824
DBO as at 30.09. with life expectancy - 1 year	2,785	2,721
SC of next year with DR +0.25 %	64	88
SC of next year with IR +0.25 %	73	98
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	14.6	18.3
Weighted average term of the cash value of the defined benefit obligation in years for active members	14.6	18.3
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	2,821	2,773

6.11 Other non-current liabilities

Other non-current liabilities relate to the following items:

in KEUR	30/09/2022	30/09/2021
Provisions for future earn-out payments	0	274
Valuation of financial derivatives	0	21
Total	0	295

6.12 Non-current financial liabilities

Non-current financial liabilities amounted to KEUR 1,500 (previous year: KEUR 4,000) and relate to a loan with a remaining term of 1 year. The loan serves to finance company acquisitions.

As part of the loan agreement, KPS provided a declaration of commitment in relation to the shares in KPS Business and Digital Transformations, S.L.U., Spain, Infront Consulting & Management GmbH, Hamburg, and KPS Digital Ltd., London, United Kingdom, as collateral.

6.13 Deferred tax liabilities

Deferred tax liabilities amounted to KEUR 1,392 (previous year: KEUR 1,860).

6.14 Trade liabilities

Trade liabilities amounted to KEUR 11,232 (previous year: KEUR 7,639) and resulted mainly from consulting services purchased.

6.15 Financial liabilities

On the balance sheet date, liabilities to banks amounted to KEUR 19,500 (previous year: KEUR 17,300) with a remaining term of up to one year.

6.16 Contractual liabilities

Contractual liabilities in the amount of KEUR 273 (previous year: KEUR 196) include prepayments received from customers for the provision of services in the future.

6.17 Other provisions

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

in KEUR	01.10.2021	Utilization	Release	Addition	30.09.2022
Provision for personnel	11,196	-10,881	-4	11,563	11,874
Provision for outstanding accounts	322	-321	-1	490	490
Provision for financial statements/audit expenses	259	-259	0	322	322
Provisions for guarantees	200	0	0	7	207
Other provisions	1,844	-1,679	0	1,143	1,308
Total	13,821	-13,140	-4	13,526	14,203

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 performance-related or other bonuses, outstanding vacation claims, obligations arising from a phased-in retirement contract, 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 yet 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 Consolidated Financial Statements.

6.18 Other liabilities

The development of other liabilities is shown in the following table:

in KEUR	30.09.2022		30.09.2021	
	up to 3 months	3 – 12 months	up to 3 months	3 – 12 months
Liabilities to employees	4,074	0	3,638	0
Wage and church taxes due	1,432	0	1,732	0
Liabilities for sales taxes and other taxes	4,164	0	3,022	0
Social security payments due	265	0	240	0
Purchase obligation Business and Digital Transformation S.L.U.	0	0	2,329	0
Earn-Out Infront Consulting & Management GmbH	966	153	1,018	781
Earn-Out KPS Digital Ltd.	1,161	383	1,135	964
Other liabilities	119	0	127	0
Total other liabilities	12,182	537	13,241	1,745

6.19 Liabilities from income taxes

Tax liabilities amounting to KEUR 2,786 (previous year: KEUR 3,000) comprise liabilities for corporate income taxes amounting to KEUR 2,450 (previous year: KEUR 2,727) and liabilities from trade taxes amounting to KEUR 336 (previous year: KEUR 273).

6.20 Reporting on financial instruments**6.20.1 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 Amortised Cost (AC)
- Financial Liabilities at Fair Value through Profit or Loss (FVTPL)
- 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 carrying amounts and fair values of financial instruments:

in KEUR		Valued at the		Valued at	Not within the	Balance sheet
		fair value		amortized cost	scope of IFRS 7	items at the
		Book value	Book value	Fair Value	Book value	end of the
						business year
Current assets						
Contractual assets		0	3,180	3,180	0	3,180
	(previous year)	(0)	(6,036)	(6,036)	(0)	(6,036)
Trade receivables		0	42,592	42,592	0	42,592
	(previous year)	(0)	(34,500)	(34,500)	(0)	(34,500)
Other receivables and financial assets		0	3,808	3,808	55	3,864
	(previous year)	(0)	(1,812)	(1,812)	(28)	(1,840)
Cash and cash equivalents		0	6,058	6,058	0	6,058
	(previous year)	(0)	(8,060)	(8,060)	(0)	(8,060)
Non-current liabilities						
Financial liabilities		0	1,500	1,500	0	1,500
	(previous year)	(0)	(4,000)	(4,000)	(0)	(4,000)
Other liabilities		0	0	0	0	0
	(previous year)	(295)	(0)	(0)	(0)	(295)
Leasing liabilities		0	18,505	18,505	0	18,505
	(previous year)	(0)	(21,747)	(21,747)	(0)	(21,747)
Current liabilities						
Financial liabilities		0	19,500	19,500	0	19,500
	(previous year)	(0)	(17,300)	(17,300)	(0)	(17,300)
Trade liabilities		0	11,232	11,232	0	11,232
	(previous year)	(0)	(7,639)	(7,639)	(0)	(7,639)
Other liabilities		2,664	4,194	4,194	5,861	12,719
	(previous year)	(3,898)	(6,040)	(6,040)	(5,049)	(14,987)
Leasing liabilities		0	4,477	4,477	0	4,477
	(previous year)	(0)	(4,620)	(4,620)	(0)	(4,620)

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

In KEUR	Category in accordance with IFRS 7 and IFRS 9	Book Value 30.09.2022	Fair Value 30.09.2022	Book Value 30.09.2021	Fair Value 30.09.2021
Current assets					
Contractual assets	AC	3,180	3,180	6,036	6,036
Trade receivables	AC	42,592	42,592	34,500	34,500
Other receivables and financial assets	AC	3,808	3,808	1,812	1,812
Cash and cash equivalents	AC	6,058	6,058	8,060	8,060
Non-current liabilities					
Financial liabilities	AC	1,500	1,500	4,000	4,000
Other liabilities	AC	0	0	0	0
Other liabilities	FVTPL	0	0	295	295
Leasing liabilities	AC	18,505	18,505	21,747	21,747
Current liabilities					
Financial liabilities	AC	19,500	19,500	17,300	17,300
Trade liabilities	AC	11,232	11,232	7,639	7,639
Other liabilities	AC	4,194	4,194	6,040	6,040
Other liabilities	FVTPL	2,664	2,664	3,898	3,898
Leasing liabilities	AC	4,477	4,477	4,620	4,620
Of which aggregated by valuation categories					
Financial Loans and Liabilities measured at Amortized Cost (AC)	AC	55,638	55,638	50,408	50,408
Financial Liabilities at Fair Value through profit or loss	FVTPL	2,664	2,664	4,193	4,193
Financial Liabilities measured at Amortized Cost	AC	59,408	59,408	61,346	61,346

Liquid funds, trade receivables, contractual assets and other receivables primarily have remaining terms of less than one year. Their carrying amounts on the balance sheet date therefore correspond approximately to their fair value.

Similarly, trade liabilities and other liabilities generally have remaining terms of less than one year. The amounts recognised on the balance sheet approximately represent their fair values.

The carrying amounts of the current financial liabilities approximately correspond to their fair value.

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

in KEUR		from interest	from subsequent valuation			from disposal	Net result
			Fair value	Currency translation	Allowances		
							2021/2022
Financial assets at Amortized Cost (AC)	(previous year)	0 (0)	0 (0)	28 (-123)	-887 (-429)	0 (0)	-860 (-552)
Financial liabilities measured at Amortized Cost (AC)	(previous year)	-904 (-408)	0 (0)	13 (-105)	0 (0)	0 (0)	-891 (-513)
Financial liabilities at Fair Value through Profit/Loss (FVTPF)	(previous year)	-138 (-258)	-500 (125)	-44 (0)	0 (0)	0 (0)	-682 (-133)

With regard to financial instruments at amortised cost, the net gains or losses include exchange rate differences, impairments, reversals, realised gains or losses on disposal, and subsequent receipts from written-down receivables.

The net gains or losses on 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 amounts of the financial liabilities generally valued at fair value in Level 3 changed as follows during the reporting year:

in KEUR	2021/2022	2020/2021
Opening balance	4,192	6,774
Total gains/losses	681	133
- Of which recorded in the income statement	681	133
- Of which recorded in other comprehensive income	0	0
Reclassifications	0	0
Additional acquisitions	0	0
Issues	0	0
Terminations	-2,209	-2,715
Transfer from stage 3	0	0
Final balance	2,664	4,192

An agreement was concluded with the sellers of KPS Business Transformation and Digital, S.L.U., Barcelona, Spain, in February 2020 and the original earn-out agreement from the company acquisition was redeemed against the obligation to pay a fixed amount of KEUR 10,329. This amount will be paid in three tranches. The last tranche of KEUR 2,329 was paid out in financial year 2021/2022.

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

The total gains and losses recognised in profit or loss during the financial year include losses from the allocation of earn-out liabilities (category FVTPL) in the amount of KEUR 525 (previous year: KEUR 194), income from the release of earn-out liabilities of KEUR 0 (previous year: KEUR 283), interest expenses (category FVTPL) of KEUR 138 (previous year: KEUR 258), gains from the measurement of an interest rate swap (category FVTPL) in the amount of KEUR 25 (previous year: KEUR 36), expenses from the foreign currency valuation of earn-out liabilities amounting to KEUR 44 (previous year: KEUR 0).

6.20.2 Derivative financial instruments and hedging arrangements

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 In past years, KPS AG took out a long-term loan originally amounting to EUR 20 million. In 2018/2019, an interest swap in the amount of EUR 10 million was concluded to hedge the interest rate risk. The hedged portion still amounted to EUR 0.5 million on 30 September 2022. 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 recognised valuation models. The fair value amounted to KEUR 4 (previous year: KEUR 21) on the balance sheet date and this amount is recorded under other liabilities. The loan and the interest rate swap have a remaining term until 31 March 2023.

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

6.20.3 Financial risk management

As a consulting firm, KPS Group is exposed to financial risks. The risks can essentially be broken down as follows:

- Liquidity risks
- Credit risks / Default risks
- Market 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's management pursues the goal of achieving a continuous and sustainable increase in the company's value. The ratio of equity to total assets (equity ratio) amounted to 45.0 % as at 30 September 2022 (previous year: 43.1%).

A maximum level of indebtedness of 2.5 was agreed in KPS AG's long-term loan contract. The formula for calculating the level of indebtedness is as follows: Net financial debt / EBITDA. Compliance with the covenants is monitored regularly as part of capital risk management. The maximum level of indebtedness was complied with in financial year 2021/2022.

As a consequence of non-compliance with the covenants, the lender could refuse to make further payments and has the discretion to call in the bank securities.

6.20.4 Liquidity risk

Liquidity risks can arise as a result of a deterioration in the operating business and as a consequence of credit and market risks. KPS Group controls the liquidity risk based on short-term and long-term liquidity planning that takes current credit lines into account. Liquidity planning is constantly monitored. Cash pool agreements have been arranged with domestic subsidiaries as well as the Dutch subsidiary of KPS AG through its principal banks. KPS also has unused lines of credit that 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	
	30.09.2022	2022/2023	2023/2024 to 2025/2026	2026/2027ff.
in KEUR				
Financial liabilities	21,000	19,500	1,500	0
Leasing liabilities	22,983	4,601	6,938	12,016
Trade liabilities	11,232	11,232	0	0
Other liabilities	12,719	12,719	0	0
Liabilities from income tax	2,786	2,786	0	0

Previous year	Book value		Payment obligations	
	30.09.2021	2021/2022	2022/2023 to 2024/2025	2025/2026ff.
in KEUR				
Financial liabilities	21,300	17,300	4,000	0
Leasing liabilities	26,367	4,767	7,336	14,988
Trade liabilities	7,639	7,639	0	0
Other liabilities	14,987	14,692	300	0
Liabilities from income tax	3,000	3,000	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.

6.20.5 Credit and default risks

KPS Group 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 minimise credit risks. When determining the recoverability of trade receivables, all changes in the creditworthiness defining the payment target up to the balance sheet date are taken into account. The default risk of the Group essentially results from trade receivables. Appropriate risk provisions are formed to cover these financial assets.

No risk concentration was determined in the reporting year (previous year: one customer) pursuant to IFRS 8.34.

Receivables are monitored constantly in the operating business. The need for impairment is analysed on every balance sheet date on the basis of the impairment matrix 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 insolvency ratio made known. This analysis revealed that there were no significant impairments in reporting year 2021/2022. 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 2022, there were no indicators of any risks extending beyond the impairments booked. If any payment obligation is in arrears by more than 30 days, the assumption of the significant increase in default risk can be refuted. This is done by making verifications in the form of appropriate and reliable information that verifies that it does not result from payment difficulties being experienced by the counterparty.

The following table shows the maximum default risk at gross carrying amounts:

Business year

in KEUR	Neither overdue nor impaired	Overdue and not impaired	Impaired	30.09.2022
Contractual assets	3,199	0	0	3,199
Trade receivables	37,632	4,486	1,633	43,751
Other assets	3,864	0	0	3,864
Total	44,694	4,486	1,633	50,813

Previous year

in KEUR	Neither overdue nor impaired	Overdue and not impaired	Impaired	30.09.2021
Contract assets	6,070	0	0	6,070
Trade receivables	28,815	3,044	4,207	36,067
Other assets	1,840	0	0	1,840
Total	36,725	3,044	4,207	43,977

The impaired receivables include nominal receivables amounting to KEUR 1,577 that were written down by KEUR 941 (previous year: KEUR 1,372).

The maturity of the gross carrying amounts of overdue financial assets that have not been written down is shown in the following overview:

Business year

in KEUR	less than 30 days	31 to 90 days	more than 90 days	30.09.2022
Other loans	0	0	0	0
Trade receivables	3,653	582	251	4,486
Other assets	0	0	0	0
Total	3,653	582	251	4,486

Previous year

in KEUR	less than 30 days	31 to 90 days	more than 90 days	30.09.2021
Other loans	0	0	0	0
Trade receivables	2,272	144	628	3,044
Other assets	0	0	0	0
Total	2,272	144	628	3,044

Over the current reporting period, there were no changes in the assessment methods or the important assumptions with regard to determining the impairments with respect to the losses expected for receivables over the residual term compared to the impairment calculated in the previous year and presented in the Notes to the Consolidated Financial Statements.

Receivables are impaired (in full), if information is available that indicates that the debtor is in significant financial difficulties and there is no realistic prospect of receiving a payment.

The following table shows the risk profile of 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 with respect to different customer segments, no distinction is made any longer between the different customer groups within the Group with regard to the impairment based on arrears.

Trade receivables at 30.09.22 – in days overdue

in KEUR	not overdue	1 - 30	31 – 60	> 60	Total
Impairment rate	0.37%	1.56%	3.04%	3.40%	
Estimated gross book value in case of default	37,632	3,653	316	582	42,182
Expected losses over the residual term	134	57	10	18	218

Trade receivables at 30.09.2021 – in days overdue

in KEUR	not overdue	1 - 30	31 – 60	> 60	Total
Impairment rate	0.55%	1.32%	1.53%	2.00%	
Estimated gross book value in case of default	28,815	2,272	522	250	31,859
Expected losses over the residual term	158	30	8	5	201

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

KEUR	2021/2022	2020/2021
Impairments as at 01. 10.	1,565	1,199
+ Additions	25	0
- Utilization/Release	-7	-99
Valuation adjustments on account of change in the default risk	301	494
Derecognitions	-726	-29
Impairments as at 30.09.	1,158	1,565

The valuation adjustments amounting to KEUR 301 (previous year: KEUR 494) relate to overdue receivables for which only a partial incoming payment is expected. This does not result from impaired creditworthiness of the debtor but rather from divergences in the invoicing of specific products or services. Of the overdue and impaired receivables on 30 September 2022 in the amount of KEUR 1,633 (previous year: KEUR 4,207), KEUR 94 are from financial year 2021/2022 and KEUR 1,539 are from previous years. All allowances relate to the Management Consulting/Transformation Consulting segment and were recognised as expense in the income statement.

In addition, unrecoverable receivables amounting to KEUR 726 (previous year: KEUR 29) were derecognised in the reporting year 2021/2022. These also relate to the Management Consulting/Transformation Consulting segment and were recognised as expense in the income statement.

6.20.6 Market risks

Currency risks / Exchange rate risks

The companies of KPS Group primarily conduct their business transactions in euros, Danish kroner, British pounds, Swiss francs, Norwegian and Swedish kronas. If the scope of business were to be extended, there would be exchange rate risks in future. Since the development of the Norwegian, Swedish and Danish krone is very stable, no sensitivity analysis relating to the Norwegian, Swedish and Danish krone has been prepared.

The average exchange rate for the year from 1 October 2021 to 30 September 2022 for the pound sterling was approximately 0.85. A hypothetical change in the exchange rate for the pound sterling of +/- 0.05 would result in an increase or decrease of +/- 6% in the revenue generated in pound sterling in 2021/2022 amounting to GBP 22,852 thousand.

The average annual exchange rate of the Swiss franc from 1 October 2021 to 30 September 2022 was approximately 1.0228. A hypothetical change in the exchange rate of the Swiss franc of +/- 0.05 would lead to an increase or decrease of approximately +/- 5% in revenue of CHF 16,681 thousand generated in Swiss francs in 2021/2022.

Interest risks

If necessary, the Group can be financed by short-term current account credit lines that are available for an unlimited period of time. The interest rates are adjusted regularly 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 reporting year 2017/2018 were financed by taking out a loan with a 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, KPS Group swaps fixed and variable interest payments that are calculated on the basis of the agreed nominal amounts. The fair value of the interest swap on the reference date 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 material. A hypothetical increase in the market interest level of 100 basis points would not have a significant impact on the financial result from the unsecured portion of the long-term loan.

A hypothetical increase in the market interest rate level of 100 basis points for the short-term money market loans of KEUR 17,000 thousand as at 30 September 2022 would lead to an increase in financial expenses of KEUR 170 thousand p.a.

Price risks

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

Scenario analysis

A scenario in which the EBIT planned in 2022/2023 is 15% higher would lead to an insignificant addition to the fair value of the earn-out obligation through profit or loss.

6.21 Leases

The following items are recognised in the Consolidated Statement of Financial Position in connection with leases:

Book value rights of use in KEUR	30.09.2022	30.09.2021
Buildings	18,178	20,683
Vehicles	1,519	1,370
Office equipment	3,727	4,612
Total	23,424	26,666

Additions to rights of use in KEUR	30.09.2022	30.09.2021
Additions	772	2,458
Total	772	2,458

Lease in KEUR	30.09.2022	30.09.2021
Short-term	4,477	4,620
Long-term	18,505	21,747
Total	22,983	26,367

6.22 Leases

The income statement shows the following amounts in connection with leases in which KPS AG is the lessee:

	01.10.2021- 30.09.2022	01.10.2020- 30.09.2021
Depreciation in KEUR		
Buildings	2,512	2,514
Vehicles	1,257	995
Office equipment	971	1,513
Total depreciation and amortization	4,740	5,022
Interest expense in KEUR		
Interest expenses for leasing liabilities	151	159
Total interest expense	151	159
Practical remedies in KEUR		
Expense for short-term leases	494	340
Total	494	340

The total cash outflows shown in the cash flow statement for leases in the financial year amounted to KEUR 5,013 (previous year KEUR 5,236).

6.22.1 Extension and termination options

A series of real estate lease agreements of the Group include extension and termination options. The current extension and termination options can only be exercised by the Group and not by the relevant lessor.

Critical judgements in determining the term of the leases

When determining the term of leases, the management takes all the facts and circumstances that offer an economic incentive to exercise extension options or non-exercise of termination options into account. Any changes in term arising from the exercise of extension or termination options are only included in the term of the agreement if an extension or a non-exercise of a termination option is sufficiently certain. In conjunction with the leasing of real estate, the following considerations are applicable in determining the term of the leases:

- If, in the event that a termination option is exercised or a renewal option is not exercised, the Group incurs significant costs in relation to the termination of the lease, such as relocation costs, it is usually considered reasonably certain that the Group will not terminate or renew the lease.
- If installations have been carried out by the lessee that have a material residual value, it is generally deemed to be sufficiently certain that the Group will extend or not terminate the agreement respectively.

Most of the extension options in conjunction with the leasing of office buildings were not included in the determination of the leasing term and hence the leasing liability, since these assets could be substituted without significant costs or business interruptions.

As at 30 September 2022, potential future cash outflows in the amount of KEUR 9,359 (previous year: KEUR 9,387) (undiscounted) were not included in the leasing liability because it was not sufficiently certain that the lease agreements are being extended (or not terminated).

The assessment is checked if an extension option is actually exercised (or not exercised), or the Group has an obligation to do this. A reassessment of the assessment originally made is carried out if a material event or a material change occurs in the circumstances that can influence the previous judgement – if this is under the control of the lessee. There were no amendments to the terms of the agreement in the current reporting period.

7. EXPLANATIONS ON THE CASH FLOW STATEMENT

Cash flows during a financial 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 show operating cash flow.

The cash position considered 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 amounted to KEUR 6,058 (previous year: KEUR 8,060). At the end of the period under review, current bank liabilities amounted to KEUR 19,500 (previous year: KEUR 17,300) and non-current bank liabilities amounted to KEUR 1,500 (previous year: KEUR 4,000).

The year-on-year decrease in net liquidity is mainly due to a lower cash inflow from operating activities of KEUR 15,463 (previous year: KEUR 17,380) with a simultaneous lower cash outflow from investing activities of KEUR -4,636 thousand (previous year: KEUR -6,183) and a lower cash outflow from financing activities. The lower cash inflow from operating activities is mainly the result of changes in working capital and KEUR 1,424 higher tax payments. Cash outflows for investments in non-current assets amounted to KEUR -4,636 (previous year: KEUR -6,183) and mainly related to earn-out payments. Cash outflows from financing activities mainly relate to dividend payments of KEUR -7,107 (previous year: KEUR -6,360) and payments of lease liabilities of KEUR -5,013 (previous year: KEUR -5,236).

7.1 Inflow/outflow from operating activities

The cash flow from operating activities decreased KEUR 1,917 from KEUR 17,380 to KEUR 15,463 compared to the previous year. This change mainly resulted from the change in working capital as well as KEUR 1,424 higher tax payments.

7.2 Inflow/outflow from investment activities

The cash flow from investment activities changed by KEUR 1,547 from KEUR -6,183 to KEUR -4,636 . Apart from small investments made in intangible assets, earn-out payments were also made for company acquisitions during the financial year.

7.3 Inflow/outflow from financing activities

The change in cash flow from financing activities compared to the previous year by KEUR 10,424 to KEUR -12,829 (previous year: KEUR -23,253) is mainly from taking out and repaying financial loans. A total of KEUR -300 in financial loans was repaid in the reporting year, and a total of KEUR -11,300 in financial loans was repaid in the previous year.

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

Financial year

in KEUR	01.10.2021	Cash	noncash			30.09.2022
			Additions	Changes in valuation	Other	
Acquisition price liabilities	6,501	-4,538	525	0	176	2,664
Leasing liabilities	26,367	-5,013	1,472	25	131	22,983
Interest-bearing liabilities	21,300	-300	0	0	0	21,000
Total	54,168	-9,851	1,997	25	307	46,646

Previous year

in KEUR	01.10.2020	Cash	noncash			30.09.2021
			Additions	Changes in valuation	Other	
Acquisition price liabilities	10,854	-4,715	194	0	168	6,500
Leasing liabilities	28,725	-5,229	2,468	244	159	26,367
Interest-bearing liabilities	32,600	-11,300	0	0	0	21,300
Total	72,179	-21,244	2,662	244	327	54,167

8. EXPLANATIONS FOR SEGMENT REPORTING

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

A distinction is made between the following segments:

8.1 Management consulting / Transformation consulting

This consulting segment deals with “Transformation Consulting” where KPS Group enjoys a leading position in the consulting market. Transformation Consulting involves providing support for clients and developing concepts and solutions taking process, organisational, logistic, financial and systems framework conditions into account. 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 KPS Group’s service portfolio as an SAP consulting partner.

8.2 System integration

The main focus of this consulting segment is on process and implementation consulting in the technology sector. KPS Group covers the field of non-SAP technologies as well as SAP technologies. The focuses in the SAP technology area are mainly on the subject areas of SOA 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 Group uses dedicated solutions to ensure seamless integration of all processes in a heterogeneous system environment. The Group assists customers with analysing the actual situation and the setup of an IT infrastructure where all operational functional areas are transparent.

8.3 Products / Licences

KPS Group rounds off its spectrum of services by selling software licences, 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. The Group has been working 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:

Presentation by business areas in KEUR	Management consulting / Transformation consulting		System Integration		Products/ Licences		Other		Overall	
	30.09.2022	prev. year	30.09.2022	prev. year	30.09.2022	prev. year	30.09.2022	prev. year	30.09.2022	prev. year
Earnings position										
Sales	170,588	150,256	1,339	1,215	7,599	6,509	0	0	179,526	157,979
Production costs	-122,601	-107,762	-711	-732	-5,041	-4,723	0	0	-128,352	-113,217
Development costs	-6,057	-4,407	0	0	-360	-166	0	0	-6,416	-4,572
Operating costs	-13,123	-9,109	-16	-38	-191	-409	-9,775	-8,987	-23,104	-18,543
EBITDA	28,807	28,978	612	445	2,008	1,211	-9,775	-8,987	21,652	-21,647
Depreciation and amortization	-6,505	-6,752	-15	-10	-101	-27	-724	-1,449	-7,344	-8,239
EBIT	22,302	22,226	598	434	1,907	1,184	-10,498	-10,436	14,308	13,408
Interest	-69	-57	0	0	0	0	-932	-916	-1,001	-973
Taxes	-5,841	-7,305	-156	-143	-499	-389	2,749	3,430	-3,747	-4,407

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

The depreciation and amortisation of the Management Consulting/Transformation Consulting segment includes unscheduled amortisation of intangible assets amounting to KEUR 142 (previous year: KEUR 352).

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

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

Sales and EBITDA essentially form the basis for company decisions at KPS AG. Most of the other information (assets, liabilities) is 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.

Information on geographical areas

The breakdown of revenues by regions is carried out on the basis of the registered office of the client and is shown in the following table:

in KEUR	2021/2022	in %	2020/2021	in %
Germany	74,936	41.7%	67,595	42.8%
Scandinavia	35,887	20.0%	34,387	21.8%
United Kingdom	22,870	12.7%	19,247	12.2%
Switzerland	19,564	10.9%	13,570	8.6%
Benelux	14,162	7.9%	12,936	8.2%
Spain	11,250	6.3%	9,988	6.3%
Other	856	0.5%	256	0.2%
Total	179,526	100.0%	157,979	100.0%

Dependence on important customers

There were no major customers in the financial year (previous year: none) within the meaning of IFRS 8.34.

9. OTHER EXPLANATIONS AND SUPPLEMENTARY INFORMATION

9.1 Liability relationships

The subordination agreed with KPS Strategie- Prozess- und IT Consulting GmbH, Austria, in the amount of KEUR 400 in financial years 2019/2020 and 2020/2021 continues to apply. In addition, the subordination in favour of KPS Sweden AB in the amount of KEUR 400 is still in place as well as the subordination in the amount of KEUR 6,000 that was agreed with KPS Transformation GmbH (formerly KPS Solutions GmbH) in financial year 2020/2021.

KPS Consulting GmbH (formerly KPS Services GmbH) has issued a maximum amount guarantee of KEUR 30,000 (previous year: KEUR 30,000) to secure current account and money market credit lines. Current account and money market liabilities amounted to KEUR 17,000 (previous year: KEUR 12,000) on the balance sheet date.

The company made a commitment to KPS Transformation GmbH and KPS Consulting GmbH as part of exemption in accordance with Article 264 para. 3 of the German Commercial Code (HGB) to guarantee all of the current obligations of these companies in respect of their creditors up until 30 September 2022. This duty to assume liability is valid until 30 September 2023.

A control and profit transfer agreement was concluded with Infront Consulting & Management GmbH on 22 March 2022.

9.2 Acquisitions and foundings after the balance sheet date

There were no acquisitions or subsidiaries after the end of the reporting period and before the financial statements were authorised for issue.

KPS AG is in negotiations to sign a purchase agreement to acquire all shares in Graphyte B.V. from Olen, Belgium, in January 2023.

Graphyte B.V. from Olen, Belgium, is a leading SAP consultancy for transportation management. The closing of the transaction will take place at the beginning of 2023. As a sufficiently reliable financial statement of Graphyte B.V. from Olen, Belgium, was not available by the time the financial statements of KPS AG were approved for publication, no preliminary purchase price allocation could be carried out so far.

9.3 Auditor fees

Fees amounting to KEUR 248 (previous year: KEUR 180) for the services provided by the auditor Baker Tilly GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft, Munich, are recognised as expenses for services in connection with auditing the financial statements. The fees for services with regard to auditing the financial statements mainly comprise remuneration for auditing the Consolidated Financial Statements and for auditing the financial statements of KPS AG and its domestic subsidiaries. Fees for audit-related services or other activities were only paid to Baker Tilly GmbH & Co. Wirtschaftsprüfungsgesellschaft, to the extent specified below.

Auditor fees:

in KEUR	2021/2022	2020/2021
Services for auditing the financial statements	248	180
Other confirmation services	0	0
Tax consulting services	0	0
Other services	0	147
Total	248	327

9.4 Related parties

Related companies and persons (related parties) as defined in IAS 24 (Related Party Disclosures) are legal or natural persons who can exert an influence on KPS AG and its subsidiaries or are subject to control or a significant influence by KPS AG or its subsidiaries. "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 who exert a controlling or significant influence. The so-called Managing Partners and Vice Presidents of the Group are also included in the extended management circle.

KPS AG does not have any non-consolidated subsidiaries, joint ventures or associated companies.

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

9.4.1 Shareholders of KPS Business Transformation GmbH

The current 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%)

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%).

Dietmar Müller: 3,813,359 shares

(previous year: 3,813,359 shares); voting rights of approx. 10.19% (previous year: approx. 10.19%)

The total remuneration of the old shareholders on account of current contracts of employment with Group companies amounted to KEUR 1,422 (previous year: KEUR 1,524).

There were no receivables or payables in respect of old shareholders in the financial year or the previous year.

9.4.2 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 remuneration of the Executive Board reported as expenses amounted to KEUR 680 (previous year: KEUR 578) in financial year 2021/2022, of which variable components amounted to KEUR 318 (previous year: KEUR 216). Compensation is comprised of fixed and variable components that are due in the short term.

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

9.4.3 Extended management circle

106 (previous year: 88) persons were members of the extended management circle on the balance sheet date.

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

Total remuneration amounting to KEUR 24,050 (previous year: KEUR 21,114) was paid to the extended management circle.

A provision amounting to KEUR 1,194 (previous year: KEUR 1,073) was set aside to cover expenses for future defined benefit claims on account of the function of Vice President introduced in financial year 2012/2013 in respect of seven persons in the extended management circle.

For the Long Term Incentive Plan 2022 of the Vice Presidents as well as for variable bonus remuneration of the Board of Partners concerning 2021/2022, equity-settled share-based payments in the amount of KEUR 221 were recognised in financial year 2021/2022 and booked against the capital reserve.

9.4.4 Supervisory Board

The remuneration of the members of the Supervisory Board for their activities on the Supervisory Board amounted to KEUR 67 (previous year: KEUR 67).

Mr Tsifidaris and Mr Grünewald have contracts of employment with KPS Transformation GmbH. The expenses for financial year 2021/2022 amounted to KEUR 934 (previous year: KEUR 946) and include fixed and variable remuneration elements.

9.4.5 Other related persons

Contracts of employment were in place with Ms Veronika König and Mr Robert Grünewald, children of Mr Uwe Grünewald (Member of the Supervisory Board) during the financial year. The expenses paid in the course of the financial year amounted to KEUR 66 (previous year: KEUR 3).

9.5 Governance bodies of the company

9.5.1 Executive Board

The following person was appointed a member of the Executive Board and authorised sole representative in the reporting year:

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

9.5.2 Supervisory Board

The Supervisory Board is unchanged from the previous year and comprises:

Mr Michael Tsifidaris (Chairman),

Authorised Signatory for KPS Transformation GmbH, Hamburg,

Mr Uwe Grünewald, (Deputy Chairman)

Authorised Signatory for KPS 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.

9.6 Loans granted to the Executive Board and the Supervisory Board

There were no loans to members of the Executive Board and the Supervisory Board in the financial year or the previous year.

10. EVENTS AFTER THE BALANCE SHEET DATE

KPS AG is in negotiations to sign a purchase agreement to acquire all shares in Graphyte B.V. from Olen, Belgium, in January 2023.

Graphyte B.V. is a leading SAP consultancy for transportation management. The transaction will be completed at the beginning of 2023. Since no sufficiently reliable financial statements of Graphyte B.V., Olen, Belgium, were available by the date of approval for publication of the financial statements of KPS AG, no preliminary purchase price allocation could be carried out to date.

The purchase agreement had not yet been signed by the date of approval for publication of the financial statements of KPS AG.

11. CORPORATE GOVERNANCE

The Executive Board and Supervisory Board of KPS AG submitted the Declaration of Compliance with the German Corporate Governance Code required pursuant to Article 161 Stock Corporation Act (AktG) and provided the shareholders with permanent access to the Declaration on the company's website (www.kps.com/de/de/company/investor-relations/corporate-governance.html).

12. NOTIFICATIONS PURSUANT TO ARTICLE 160 PARA. 1 (8) GERMAN STOCK CORPORATION ACT (AKTG)

A list of the notifications pursuant to Article 160 para. 1 (8) of the German Stock Corporation Act (AktG) is published in the Annual Report.

13. GROUP RELATIONSHIPS / EXEMPTIONS PURSUANT TO ARTICLE 264 PARA. 3, ARTICLE 264B OF THE GERMAN COMMERCIAL CODE (HGB)

KPS AG, Unterföhring, draws up consolidated financial statements as the ultimate parent company as of 30 September 2022. These are published in the German Federal Gazette (Bundesanzeiger).

The following companies are included in these Consolidated Financial Statements using full consolidation and make use of the exemption regulations pursuant to Article 264, para. 3, 264b of the German Commercial Code (HGB) with regard to disclosure and parts of the presentation in respect of their Individual Annual Financial Statements and the Management Report for financial year 2021/2022:

- KPS Transformation GmbH, Unterföhring
- KPS Consulting GmbH, Unterföhring
- Infront Consulting & Management GmbH, Hamburg

Unterföhring, 13 January 2023

The Executive Board
Leonardo Musso

KPS AG Group

DEVELOPMENT OF THE FIXED ASSETS (GROSS PRESENTATION)

in KEUR	ACQUISITION OR PRODUCTION COSTS					ACCUMULATED DEPRECIATION					CARRYING AMOUNT	
	01.10.2021	Additions	Disposals	Transfers	30.09.2022	01.10.2021	Additions	Disposals	Transfers	30.09.2022	30.09.2022	30.09.2021
<u>I.) INTANGIBLE ASSETS</u>												
1. Concessions, industrial property rights and similar rights and assets, and licences in such rights and assets												
a.) if acquired	13,806	3	0	141	13,950	11,577	876	0	141	12,594	1,356	2,229
b.) if generated internally	15,831	0	742	-141	14,948	5,433	1,353	742	-141	5,903	9,045	10,398
2. Advance payments made	0	0	0	0	0	0	0	0	0	0	0	0
3. Goodwill	77,562	0	0	0	77,562	15,016	0	0	0	15,016	62,546	62,546
Intangible assets	107,199	3	742	0	106,460	32,026	2,229	742	0	33,513	72,947	75,173
<u>II.) PROPERTY, PLANT AND EQUIPMENT</u>												
1. Business and office equipment	3,818	95	58	0	3,855	1,510	346	58	0	1,798	2,057	2,308
2. Low-value assets	151	0	0	0	151	53	29	0	0	82	69	98
3. Advance payments received	0	0	0	0	0	0	0	0	0	0	0	0
Property, plant and equipment	3,969	95	58	0	4,006	1,563	375	58	0	1,880	2,126	2,406
Total fixed assets	111,168	98	800	0	110,466	33,589	2,604	800	0	35,393	75,073	77,579

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

Pursuant to Article 33 para. 1 of the Securities Trading Act (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 2022, the company was informed of the following shareholdings in accordance with Article 33 Section 1 Securities Trading Act (WpHG) and the shareholdings were published in accordance with Article 40 para. 1 Securities Trading Act (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):

Statutory notifier	Date of the publication in accordance with Article 40 WpHG	Date the threshold was reached	Reason for the notification	Voting shares in percent(in absolute voting rights)			
				Art. 33 WpHG ²	Art. 34 WpHG ³	Art. 38 WpHG ⁴	Art. 39 WpHG ⁵
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%
Allianz SE	18/01/2018	21/12/2017	Voluntary Group notification on account of internal restructuring	0	6,68 % (2.500.000)	-	6.68%

For further details, we refer to our announcements of the voting rights notifications received in the company register.

¹ Union Investment Privatfonds GmbH fell below the threshold of 3% on 2 February 2021, i.e. in financial year 2020/2021, and is therefore no longer included in the disclosures below

² Share of the directly held voting rights

³ Share of the attributed voting rights

⁴ Share of the directly or indirectly held instruments which permit acquisition of shares with voting rights

⁵ 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 asset, financial and earnings position 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, 13 January 2023

The Executive Board
Leonardo Musso

ALTERNATIVE PERFORMANCE MEASURES FOR KPS GROUP

The Management Report and financial statements of 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) that are not subject to these regulations and for which there is no generally accepted reporting standard. KPS calculates the APM 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 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 following APMs:

- Change in sales
- EBIT
- EBIT margin
- EBITDA
- (adjusted) EBIT
- Equity ratio
- Cash flow
- Operating 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 compared to 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

The **EBIT margin** is calculated from EBIT in relation to sales.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) stands for earnings before interest, taxes, depreciation and amortisation, impairment losses and reversals of impairment losses. This performance indicator neutralises the financial result and distorting effects on operating business activities that result from differing methods used for depreciation and amortisation, and flexibilities in measuring valuations. EBITDA is calculated on the basis of EBIT plus the depreciation and amortisation, 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 amortisation / Impairment losses / Reversals of impairment losses on property, plant and equipment and intangible assets
 = EBITDA

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

The **equity ratio** shows how high the share of equity capital is in total capital.

$\frac{\text{Equity}}{\text{Capital}} \times 100$

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

Annual result
 - 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

INDEPENDENT AUDITOR'S REPORT

To KPS AG, Unterföhring

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT COMBINED WITH THE MANAGEMENT REPORT OF THE COMPANY**Audit opinions**

We have audited the consolidated financial statements of KPS AG and its subsidiaries (the Group), which comprise the Consolidated Statement of Financial Position as at 30 September 2022, the Consolidated Statement of Income and Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the financial year from 1 October 2021 to 30 September 2022, and the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies. We have also audited the Group Management Report, which is combined with the Management Report of KPS AG, for the financial year from 1 October 2021 to 30 September 2022.

In our opinion, based on the findings of our audit,

- the accompanying Consolidated Financial Statements comply in all material respects with the IFRSs as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) German Commercial Code (HGB) and give a true and fair view of the financial position of the Group as at 30 September 2022 and of its financial performance for the financial year from 1 October 2021 to 30 September 2022 in accordance with these requirements; and
- the enclosed Group Management Report, which is combined with the Management Report of KPS AG, as a whole provides an accurate view of the Group's position. This Group management report is consistent with the Consolidated Financial Statements in all material respects, complies with German legal requirements and accurately presents the opportunities and risks of its future development.

In accordance with Section 322 (3) sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any reservations concerning the correctness of the Consolidated Financial Statements and the Group Management Report.

Basis for the audit opinions

We conducted our audit of the Consolidated Financial Statements and the Group Management Report, which is combined with the Management Report of KPS AG, in accordance with

Section 317 HGB and the EU Regulation on Auditors of the Financial Statements (No. 537/2014; hereinafter "EU-APrVO") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility under these regulations and principles is further described in the section "Auditor's responsibility for the audit of the Consolidated Financial Statements and the Group Management Report" of our auditor's report. We are independent of the Group entities in accordance with European law and German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. Furthermore, pursuant to Article 10 (2) (f) EU-Audit Regulation, we declare that we have not performed any prohibited non-audit services pursuant to Article 5 (1) EU-Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the Consolidated Financial Statements and the Group Management Report.

Particularly important audit matters in the audit of the Consolidated Financial Statements

Particularly important audit matters are those matters which, in our professional judgement, were of the greatest significance in our audit of the Consolidated Financial Statements for the financial year from 1 October 2021 to 30 September 2022. These matters were considered in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

In our view, the following matters were most important in our audit:

- Impairment of Goodwill
- Recoverability of deferred tax assets

We have structured our presentation of these important audit matters as follows:

- The issue and an explanation of the problem
- Audit approach and findings
- Reference to further information

In the following, we present the particularly important audit matters:

Impairment of Goodwill

1. In the Consolidated Financial Statements of KPS AG, goodwill of EUR 62.5 million is reported under the balance sheet item "Goodwill," representing around 39% of the total assets. The company allocates goodwill to the relevant groups of cash-generating units. Goodwill is subjected to an annual impairment test by the company on the balance sheet date or as required. In principle, the values in use are compared with the carrying amounts of the respective group of cash-generating units. The basis for these valuations is generally the present value of future cash flows of the cash-generating unit to which the respective goodwill is to be allocated. The valuations are based on the budgets of the individual cash-generating units, which are in turn based on the financial plans approved by management. Discounting is carried out using the weighted average cost of capital of the respective cash-generating unit. The result of this valuation is highly dependent on the estimation of future cash inflows by the legal representatives of the company as well as the discount rate used and is therefore subject to considerable uncertainty, which is why this matter is of particular importance in the context of our audit.
2. To address this risk, we critically assessed management's assumptions and estimates and performed the following audit procedures, among others:
 - We reviewed the methodology used to perform the impairment tests and assessed the determination of the weighted average cost of capital.
 - We satisfied ourselves that the future cash inflows underlying the valuations and the discount rates used provide an appropriate overall basis for the impairment tests of the individual cash-generating units.

- Our assessment was based, among other aspects, on a comparison with general and industry-specific market expectations as well as extensive explanations by management on the key value drivers of the plans and a comparison of this information with the current budgets from the planning approved by the Supervisory Board.
 - Fully aware of the fact that even relatively small changes in the discount rate can have a material impact on the amount of the value in use determined in this manner, we have considered the parameters used in determining the discount rate applied, including the weighted average cost of capital ("WACC"), and were able to understand the company's calculation scheme.
 - Furthermore, we performed our own sensitivity analyses for selected groups of cash-generating units in order to be able to assess a possible impairment risk in the event of a change in a material assumption of the valuation that is considered possible. The selection was based on qualitative aspects and the amount of overcoverage of the respective carrying amount by the value in use.
 - We determined that the respective goodwill and overall the carrying amounts of the relevant groups of cash-generating units are covered by the discounted future cash flows as at the balance sheet date.
3. The company's disclosures on goodwill are included in Note 6.2 to the Consolidated Financial Statements.

Recoverability of deferred tax assets

1. KPS AG shows deferred tax assets totalling EUR 4.2 million in its Consolidated Financial Statements under the balance sheet item "Deferred tax assets," which includes deferred tax assets due to tax loss carryforwards in the amount of EUR 3.8 million.

Deferred tax assets were recognised to the extent that it is probable, according to the estimates of the legal representatives, that taxable results will arise in the foreseeable future through which the deductible temporary differences and unused tax losses can be utilised. Forecasts of future taxable results are determined for this purpose that result from the approved planning calculation. For the calculation of deferred taxes, the tax rates of future years are used insofar as they have already been legally established or the legislative process has essentially been completed. From our point of view, these matters were of particular importance, as they are highly dependent on the assessment and assumptions of the legal representatives and are subject to uncertainty.

2. To address this risk, we critically assessed the management's assumptions and estimates and performed the following audit procedures, among others:
 - Involvement of internal tax accounting specialists in the audit team as part of our audit of tax matters.
 - Gained an understanding of the management's conception of the deferred tax accounting process.
 - Assessment of the recognition and measurement of deferred taxes.
 - Assessing the recoverability, to the extent that there were insufficient deferred tax liabilities, based on the tax planning prepared by the legal representatives and assessing the appropriateness of the planning basis used.

Based on our audit procedures, we were able to understand the assumptions made by the management regarding the recognition and measurement of deferred taxes and convince ourselves of their appropriateness.

3. The company's disclosures on deferred taxes are included in Notes 6.3 and 5.9 to the Consolidated Financial Statements.

Other information

The legal representatives are responsible for the other information. The other information includes:

- "The KPS Executive Board" and "KPS on the Capital Market 2021/2022" in the chapter "To the Shareholders" in the 2021/2022 Annual Report,

- Group Corporate Governance Statement in Section 7. of the Combined Management Report 2021/2022,
- Information on the non-financial Group declaration and Declaration of Compliance in Section 7 of the Combined Management Report 2021/2022,
- Assurance of the legal representatives,
- Alternative key performance indicators of KPS Group.

The Supervisory Board is responsible for the following miscellaneous information:

- “The KPS Supervisory Board” in the chapter “To the Shareholders” in the 2021/2022 Annual Report.

Our audit opinions on the Consolidated Financial Statements and the Group Management Report, which are combined with the Management Report of KPS AG, do not cover the other information and, accordingly, we do not express an audit opinion or any other form of conclusion thereon.

In connection with our audit, we have a responsibility 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, which is combined with the Management Report of KPS AG, or our knowledge obtained in the course of the audit; or
- otherwise appears to be materially misrepresented.

Responsibility of the legal representatives and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report, which is combined with the Management Report of the company

The management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with IFRSs as adopted by the EU and the additional requirements of German law pursuant to Section 315e para. 1 HGB and for such internal control as management deems necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error. Furthermore, the management is responsible for such internal control as management deems 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 management is responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing, as applicable, matters related to a going concern. Furthermore, they are responsible for preparing the financial statements on a going concern basis unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the management is responsible for the preparation of the Group Management Report, which is combined with the Management Report of KPS AG and as a whole provides an accurate view of the Group's position and is consistent in all material respects with the Consolidated Financial Statements, complies with German legal requirements and accurately presents the opportunities and risks of future development. Furthermore, the management is responsible for the arrangements and measures (systems) that it has deemed necessary to enable the preparation of a Group Management Report in accordance with the applicable German legal requirements and to provide sufficient appropriate evidence for the statements made in the Group Management Report.

The Supervisory Board is responsible for overseeing the Group's accounting process for the preparation of the Consolidated Financial Statements and the Group Management Report, which is combined with the Management Report of KPS AG.

Auditor's responsibility for the audit of the Consolidated Financial Statements and the Group Management Report combined with the Management Report of the company

Our objective is to obtain reasonable assurance as to 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, which is combined with the Management Report of KPS AG, as a whole provides an accurate view of the Group's position and is consistent, in all material respects, with the Consolidated Financial Statements and with our audit findings, comply with German legal requirements and accurately present the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinions on the Consolidated Financial Statements and on the Group Management Report, which is combined with the Management Report of KPS AG.

Reasonable assurance is a high level of assurance, but is not a guarantee, that an audit conducted in accordance with Section 317 HGB and EU-APrVO and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these Consolidated Financial Statements and the Group Management Report, which are combined with the Management Report of KPS AG.

During the audit, we exercise professional judgement and maintain a critical attitude. Furthermore,

- we identify and assess the risks of material misstatement of the Consolidated Financial Statements and the Group Management Report combined with the Management Report of KPS AG, 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 material misstatements is higher in the case of non-compliance than in the case of inaccuracies, as non-compliance can involve fraud, forgery, intentional omissions, misleading representations or the override of internal controls.
- we obtain an understanding of internal control relevant to the audit of the Consolidated Financial Statements and of precautions and measures relevant to the audit of the Group Management Report, which is combined with the Management Report of KPS AG, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those systems.
- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- we conclude on the appropriateness of the going concern basis of accounting used by the management and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that could cast significant doubt on the Group's ability

to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements and the Group Management Report, which is combined with the Management Report of KPS AG, or, if such disclosures are inadequate, to modify our respective audit opinion. We draw our conclusions based on the audit evidence obtained up to the date of our audit opinion. However, future events or conditions could result in the Group being unable to continue as a going concern.

- we assess the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that they give a true and fair view of the asset, financial and earnings position of the Group in accordance with IFRSs as adopted by the EU and the additional requirements of German law pursuant to Section 315e para. 1 HGB.
- we obtain sufficient appropriate audit evidence regarding the accounting information of the entities or business activities within the Group to express opinions on the Consolidated Financial Statements and on the Group Management Report, which is combined with the Management Report of KPS AG. We are responsible for the direction, supervision and performance of the audit of the Consolidated Financial Statements. We are solely responsible for our audit opinions.
- we assess the consistency of the Group Management Report, which is combined with the Management Report of KPS AG, with the Consolidated Financial Statements, its compliance with the law and the understanding of the Group's position expressed by it.
- we perform audit procedures on the forward-looking statements made by the management in the Group Management Report, which is combined with the Management Report of KPS AG. Based on sufficient suitable audit evidence, we in particular verify the significant assumptions underlying the forward-looking statements made by the legal representatives and assess the appropriate derivation of the forward-looking statements from these assumptions. We do not express an independent opinion on the forward-looking statements or the underlying assumptions. There is a significant unavoidable risk that future events can differ materially from the forward-looking statements.

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

We make a declaration to those charged with governance that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence and the safeguards that have been put in place to address them.

From the matters discussed with those charged with governance, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless the law or regulations preclude public disclosure of the matter.

OTHER STATUTORY AND OTHER LEGAL REQUIREMENTS

Report on the audit of the electronic reproductions, prepared for the purpose of disclosure, of the Consolidated Financial Statements and the Group Management Report combined with the Management Report of the company pursuant to Section 317 para. 3a HGB (German Commercial Code)

Audit opinion

Pursuant to Section 317 (3a) of the German Commercial Code (HGB), we have performed a reasonable assurance engagement to determine whether the data contained in the attached file "kpsag-2022-09-30-en.zip" SHA256: 70ba74b9d5871ce6f5ba23438a0faa689670882f5012cd418284a3cddc5de38d and prepared for the purpose of disclosure of the Consolidated Financial Statements and the Group Management Report combined with the Management Report of KPS AG (hereinafter also referred to as "ESEF documents") comply in all material respects with the electronic reporting format ("ESEF format") pursuant to Section 328 (1) HGB. In accordance with German statutory provisions, this audit only covers the transfer of the information contained in the Group Management Report combined with the Management Report of KPS AG into the ESEF format and therefore neither the information contained in these reproductions nor any other information contained in the aforementioned file.

In our opinion, the reproductions of the Consolidated Financial Statements and the Group Management Report, which are combined with the Management Report of KPS AG, contained in the aforementioned attached file and prepared for the purpose of disclosure comply in all material respects with the requirements of Section 328 (1) HGB regarding the electronic reporting format. We do not express any opinion whatsoever on the information contained in these reproductions or on the other information contained in the above-mentioned file beyond this opinion and our opinions on the accompanying Consolidated Financial Statements and the accompanying Group Management Report, which is combined with the Management Report of KPS AG, for the financial year from 1 October 2021 to 30 September 2022 contained in the preceding "Report on the audit of the Consolidated Financial Statements and the Combined Management Report."

Basis for the audit opinion

We conducted our audit of the reproductions of the Consolidated Financial Statements and the Group Management Report contained in the above-mentioned attached file, which is combined with the Management Report of KPS AG, in accordance with Section 317 (3a) of the German Commercial Code (HGB) and in compliance with the *IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for the Purposes of Disclosure pursuant to Section 317 (3a) of the German Commercial Code (HGB) (IDW PS 410)*. Our responsibility thereunder is further described in the section "Responsibility of the Group auditor for the audit of the ESEF documents." Our auditing practice has complied with the quality assurance system requirements of the *IDW Quality Assurance Standard: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)*.

Responsibility of the legal representatives and the Supervisory Board for the ESEF documents

The company's management is responsible for the preparation of the ESEF documents containing the electronic reproductions of the Consolidated Financial Statements and the Group Management Report, which is combined with the Management Report of KPS AG, in accordance with Section 328 (1) sentence 4 no. 1 of the German Commercial Code (Handelsgesetzbuch – "HGB") and for the certification of the Consolidated Financial Statements in accordance with Section 328 (1) sentence 4 no. 2 HGB.

Furthermore, the company's management is responsible for the internal controls as they deem necessary to enable the preparation of the ESEF documents that are free from material non-compliance, whether due to fraud or error, with the electronic reporting format requirements of Section 328 (1) HGB.

The legal representatives of the company are also responsible for submitting the ESEF documents together with the auditor's report and the attached audited Consolidated Financial Statements and audited Group Management Report, which is combined with the Management Report of KPS AG, as well as other documents to be disclosed to the operator of the Federal Gazette.

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

Auditor's responsibility for the audit of the ESEF documents

Our objective is to obtain reasonable assurance as to whether the ESEF documents are free from material non-compliance, whether due to fraud or error, with the requirements of Section 328 (1) HGB. During the audit, we exercise professional judgement and maintain a critical attitude. Furthermore,

- we identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, 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.
- we obtain an understanding of internal control relevant to the audit of the ESEF documents in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those controls.
- we assess the technical validity of the ESEF documentation, i.e., whether the file containing the ESEF documentation meets the requirements of Delegated Regulation (EU) 2019/815, as amended at the reporting date, for the technical specification for that file.

- we assess whether the ESEF documentation provides a consistent XHTML representation of the audited Consolidated Financial Statements and the audited Group Management Report, which is combined with the Management Report of KPS AG.
- we assess whether the mark-up of the ESEF documents with inline XBRL technology (iXBRL) provides an adequate and complete machine-readable XBRL copy of the XHTML rendering.

Other information according to Article 10 EU-APrVO

We were elected as auditors of the Consolidated Financial Statements by the Annual General Meeting on 18 May 2022. We were appointed by the Supervisory Board on 30 September 2022. We have served as auditors of the Consolidated Financial Statements of KPS AG, Unterföhring, without interruption since financial year 2015/2016.

We declare that the audit opinions contained in this audit opinion are consistent with the additional report to the audit committee pursuant to Article 11 EU-APrVO (audit report).

AUDITOR IN CHARGE

The auditor responsible for the audit is Joachim Weilandt.

Munich, 17 January 2023

Baker Tilly GmbH & Co KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

Hund
German Public Auditor

Weilandt
German Public Auditor



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