GROUP
ANNUAL REPORT

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OVERVIEW OF THE **CONSOLIDATED RESULTS**

1 October 2017 to 30 September 2018

OVERVIEW OF THE CONSOLIDATED RESULTS

in million euros	**2017/2018**	**2016/2017**	**+/-**
Revenues	172.2	160.3	+7.4 %
EBITDA	20.0	26.4	-24.3 %
Operating result (EBIT)	16.6	24.8	-33.1 %
Financial result	-1.3	1.1	-2.4
Earnings before income taxes	15.3	25.8	-10.5
Income taxes	-5.4	-6.0	+0.6
Earnings after income taxes	9.8	19.8	-10.0
Earnings per share (in euros)	0.26	0.53	-0.27

REVENUES
172.2 million

EBITDA
20.0 million

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CONTENT

Entrepreneurial Thinking and Action.
Professionalism and Passion.
Respect and Individuality.

That's what the KPS consulting team stands for.

2017 18

THE CEO OF KPS
TO THE SHAREHOLDERS

Ladies and Gentlemen, Dear Shareholders,

The business year 2017/2018 was a successful year for KPS AG. Digitalization continues to be a strong growth driver in the national and international consulting market and companies are increasingly engaging with this major challenge. Digital strategies and business models need to be developed. Processes and technologies need to be entirely realigned with a customer-centric focus. We perceive this development primarily in our core segment of retail, but it is also coming to the fore with increasing frequency in other sectors, such as the consumer-goods segment, energy utilities and in industry.

Over the past year, KPS consultants have once again been able to successfully deploy their know-how in the implementation of these digital transformation initiatives and demonstrate their expertise in many different ways. A paradigmatic example was the support we provided for one of Germany's leading department stores in successfully implementing a project in CRM and Marketing. This was directed toward strengthening customer loyalty on the basis of new technologies and processes. We assisted Scandinavia's biggest specialist electronics dealer in the development and roll-out of a new B2B e-commerce portal in just a few months. KPS provided help for the biggest online furniture retailer in launching a new ERP solution. KPS experts gave a helping hand to the largest British retailer for beds and mattresses as it developed a new SAP e-commerce platform with the objective of successfully increasing the company's market share in the online sector. A leading German wholesaler and service provider in the food sector launched a major transformation initiative together with KPS aimed at implementing an integrated process and technology landscape. The world leader in the manufacture of welding equipment engaged KPS to mastermind the roll-out of its SAP template in Europe. One of the world's leading fashion retailers was assisted by KPS in introducing advanced processes and technologies for its digital marketing program. However, digital services are also becoming increasingly important in the public sector. For example, KPS gave support to the state of Hessen as it rolled out an e-commerce platform for geobasis data.

KPS continued to drive forward its focused strategy of internationalization, innovation and process industrialization in the business year 2017/2018. We expanded our portfolio by additional innovative consulting services through the acquisitions of Infront Consulting und Management from Hamburg and Envoy Digital from London. These additions have given the Group an even more extensive platform of services. Particularly in the area of digital strategic consulting, the direction of travel for future transformation projects is very often defined in an early stage also for future processes and technologies. The team at Infront Consulting acts here as a spearhead within the KPS Group and simultaneously opens up strategic access to new customer segments in other areas. Particularly in the sphere of digital consulting, the recruitment of experienced specialists is a big challenge. The takeover of Envoy Digital has provided KPS with a leading SAP consulting partner for e-commerce. This move has also significantly expanded the pool of digital consultants and secured a strategic presence in the United Kingdom.

Once again, the innovative strength and quality of KPS as a consulting partner was confirmed by an array of awards in the past business year. KPS and its subsidiary company Infront Consulting were saluted as Germany's Best Consultants by business magazine brand eins and the statistics portal statista for the fifth time in succession. KPS won the IP Innovation Award conferred by the SME Initiative

Leonardo Musso
Founder and CEO of KPS AG

and received the Seal of Approval of the TOP 100 Companies in Germany for outstanding innovative strength by compamedia. KPS improved its placings in the German Internet Agency Rankings, moving from 8 to 7 in the Sub-ranking E-Commerce and from 20 to 16 in the Overall Ranking. In the Online Platform Ranking, KPS achieved 13th place. And in Scandinavia, KPS was appointed as the first certified implementation partner of SAP for the SAP Concur Cloud Solution. All these awards reflect the leading market position of KPS AG as a partner for digital transformation projects.

Laying the foundation stone for our new corporate building located on Dortmund's Lake Phoenix formed another milestone for the Group last year. Office floor space of more than 8,000m² is a landmark for the growth already achieved while also providing a demonstration of our commitment to continuing this growth trajectory in the future. From the fall in 2019 onward, our customers will be able to experience state-of-the-art consultancy by KPS in the new Lake Phoenix design centers. Continuous growth also requires expansion of office floor space in Barcelona, Hamburg and Munich. In fall 2018, KPS opened its office in Oslo, Norway, so as to be in a better position to provide customers there with a local service on the ground.

Transparent communication with the latest news is a top priority for our dealings with the capital market and our investors. We therefore adjusted the forecast for the business year 2017/2018 in our half-year financial statements and informed all the market participants accordingly. We achieved the growth forecast issued in this notification. Sales increased by 7.4 % to 172.2 million euros in comparison with the business year 2016/2017 and EBIT at 16.6 million euros was within the scope of the forecast of between 16 and 20 million euros. This is due to our excellent consulting portfolio and the newly acquired or successfully concluded projects. Positive impacts have also been delivered from our company acquisitions. This success gives us a robust financial structure and excellent results from operations.

The background of universal success makes us very confident about development in the coming business year. We continue to predict an environment of stable growth, and alongside a strategic increase in sales, we intend to concentrate on industrialization of our consulting services, and the resulting efficiency enhancements, as well as the optimization of profits. We expect a modest increase in sales to between 170 and 180 million euros for the business year 2018/19. Our forecast also assumes a significant rise in EBITDA to 22 – 27 million euros.

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

Munich, January 2019
Your Executive Board

Leonardo Musso

2017/18

THE SUPERVISORY BOARD OF KPS
TO THE SHAREHOLDERS

Michael Tsifidaris
Founder and Chairman of KPS AG

Dear Shareholders,

The Supervisory Board provides information on its activity during the business year 2017/2018 in the following report. The report focuses in particular on the continuous dialog with the Executive Board, the main issues for consultation at the meetings of the Supervisory Board, and the audit of the annual and consolidated financial statements.

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

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

During the course of the business year 2017/2018, the Executive Board regularly kept the Supervisory Board informed with prompt and comprehensive reports on issues relevant to the company relating to planning, business development, the risk position, strategic measures, as well as about important business transactions and projects. Written reports on the individual business segments were prepared in good time prior to the individual meetings of the Supervisory Board and they were then reviewed by the Supervisory Board. Any deviations in the business performance from the defined plans and targets were explained to the Supervisory Board with appropriate substantiation, and these issues were discussed by the Supervisory Board. The Supervisory Board always had adequate opportunity to engage critically with the reports and resolution proposals of the Executive Board and to obtain appropriate assurance of the lawfulness, expediency, and fit and properness of the management of the business.

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

Supervisory Board meetings:
Alongside various informal meetings, the Supervisory Board convened for a total of four official meetings in the business year 2017/2018. The Supervisory Board meeting held on 24 January 2018 took place in the form of a video conference. The Supervisory Board Meeting held on 30 January 2018 took place in the form of a teleconference. The Members of the Supervisory Board were present in person at all of the other meetings.

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

The meeting held on 13 March 2017 focused specifically on reviewing the takeover of Infront Consulting & Management GmbH. Furthermore, the schedule planning was drawn up on account of the Annual General Meeting being brought forward to 23 March 2018.

On 24 January 2018, an informal Supervisory Board meeting took place. The written submissions of the auditors relating to the likely annual financial statements were analyzed. A resolution was passed to approve the audited annual financial statements as well as the management report and hence the adoption of the annual financial statements, and to approve the endorsement of the consolidated financial statements as well as the Group Management Report by a separate resolution on 30 January 2018.

On 30 January 2018, the annual financial statements and the income situation of the business year 2016/2017 were analyzed. The Supervisory Board was able to review the plausibility of the figures submitted on the basis of the members' individual expertise and their knowledge of the company. The documents presented to them enabled them to assess the situation of the company and to review any weaknesses such that the annual financial statements were approved and the consolidated financial statements were adopted at a teleconference held on 30 January 2018. In view of the business situation of the company, the outstanding quality of the bookkeeping, and the very thorough audit carried out by the auditor, the Supervisory Board refrained from carrying out any further audits, particularly since there were no indications that this was necessary. Furthermore, the report by the Supervisory Board for the business year 2016/2017 was adopted. Finally, decisions were taken on the agenda and the draft resolutions for the Annual General Meeting on 23 March 2018. The Supervisory Board then analyzed the purchase contract (Envoy SPA) relating to the takeover of Envoy Digital Limited with registered office in Wimbledon/England. The Supervisory Board agreed on all items in the purchase contract and instructed the Executive Board to carry out the purchase. Lastly, the Supervisory Board passed a resolution to release the Group companies of KPS AG for the business year 2016/2017 from the obligation to apply certain regulations in drawing up, auditing and publishing their respective financial statements and management report. At the meeting on 23 March 2018, outstanding items in the guidance notes for the chair of the meeting for the Annual General Meetings were agreed with the Executive Board. Furthermore, the Executive Board provided information about business development during the first five months and presented the outlook for the result during the first half of the year. Finally, the Supervisory Board approved the reactivation of the program to repurchase its own shares, currently put on hold, at a share price of less than € 10.

The last meeting of the Supervisory Board in the business year 2017/2018 was held on 19 September 2018. The Executive Board and the Supervisory Board discussed the personnel changes in the management team and their incentivization. A decision was then taken to open a project office in Oslo for the Elkjop project. Initially, it is intended as an outpost of the Danish KPS company. The Supervisory Board then discussed the Code of Conduct that had been submitted. The Supervisory Board had no proposals for changes and passed a resolution on the application and publication.

The Executive Board then presented a report on business development during the business year 2017/2018 and gave the forecast for the annual financial statements.

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

Corporate Governance:
Corporate Governance: The requirements of the German Corporate Governance Code constituted another important matter. The Executive Board and the Supervisory Board decided to adopt the recommendations of the German Corporate Governance Code with a few exceptions, which are related to the size of the company. The Executive Board and the Supervisory Board regard the Code as an important step toward transparency, corporate governance and control. On 18 January 2018, the Supervisory Board devoted time to regularly discussing the topic of corporate governance and passed a resolution on the new joint Declaration of Compliance of the Supervisory Board and the Executive Board pursuant to Article 161 Stock Corporation Law (AktG). This will be published permanently on the Internet pages of the company together with the old Declaration of Compliance. One of the exceptions to the Corporate Governance Code includes the fact that the Supervisory Board does not form separate committees because of its size. The internal compliance issues within the Group were also regularly discussed and reviewed at the meeting referred to.

Composition of the Supervisory Board:
During the entire business year 2017/2018, the following persons were Members of the Supervisory Board:

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

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

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

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

GROUP
Annual Report
2017/2018

REPORT OF THE **SUPERVISORY BOARD**

Annual and consolidated financial statements for 2017/2018:
The auditing firm Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Munich, appointed as auditor of the annual financial statements and consolidated financial statements by the Annual General Meeting held on 23 March 2018, audited the bookkeeping, the annual financial statements of KPS AG, and the consolidated financial statements including the management reports for the business year 2017/2018 and granted each of the documents in each case an unqualified audit opinion. There are no doubts about the independence of the auditor of the financial statements, who submitted the required declaration of independence. The requirements of the German Corporate Governance Code regulating the terms of engagement between the company and the auditing firm have been complied with. The auditor has submitted a comprehensive report on the result of the audit, which was carried out on the complete annual financial statements of the Group and all its subsidiary companies. The annual financial statements of the Group and all the subsidiary companies were provided, as were the report on the audit of the consolidated financial statements and the audit of the individual financial statements of the joint-stock company (Aktiengesellschaft, KPS AG). The auditor was also available to answer any additional questions.

The documents and audit reports drawn up by the auditor were submitted promptly to the members of the Supervisory Board for review. The auditor was present at the balance sheet meeting of the Supervisory Board on 24 January 2019 and reported on the key results of the audit and the auditing focuses. The Supervisory Board took note of the reports provided by the auditor and concurred with the result. The outcome of our own audit (carried out on a random test basis) is in accordance with the result of the audit of the financial statements. The Supervisory Board had no reason to raise any objections in relation to the management and the financial statements submitted.

We concur with the results of the audit of the financial statements. We have no objections on the basis of the final result of our thorough audit and discussion with the auditor of the financial statements. The Supervisory Board approved the annual financial statements of KPS AG drawn up by the Executive Board and the consolidated financial statements including the management report on 24 January 2019. The annual financial statements of KPS AG are therefore adopted. The Report by the Supervisory Board for the business year 2017/2018 was also approved in the course of these deliberations. The proposal for the appropriation of the profit submitted and explained by the Executive Board was agreed by the Supervisory Board after it had carried out its own audit and taking into account the earnings performance and financial situation of the company. The Supervisory Board considers the proposed dividend to be appropriate.

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

Your Supervisory Board

Michael Tsifidaris
Chairman of the Supervisory Board

KPS – WE ARE SHAPING THE DIGITAL TRANSFORMATION

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


Copenhagen
London
Oslo
Amsterdam
Hamburg
Dortmund
Saarbrucken
Wolfsburg
Munich
Heilbronn
Vienna
Zurich
Barcelona

Cost and complexity oftens makes companies hesitate before investing in innovative processes and technologies. KPS makes complex transformation projects manageable, controllable, and implements them faster – by a winning combination of proven methodology and experienced experts.

Steffen Sattler, Vice President KPS

KPS – WE PLACE OUR CUSTOMERS AT THE CENTRE OF OUR ENDEAVORS

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

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

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

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

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

THE KPS RAPID-TRANSFORMATION® METHOD

KPS SIMULTANEOUS ENGINEERING
Parallel development of strategy, processes, applications, and the necessary infrastructure

KPS ALL-STAR PRINCIPLE
Consultants with expertise in retail, wholesale, and in the fashion and consumer-goods sector bring know-how to process and system development

KPS RAPID PROTOTYPING
No blueprint, early demonstration of processes in the system, secure investment - fast transition to the pilot phase, accelerated implementation

KPS CAMPUS® APPROACH
Early and continuous project involvement of business and IT

KPS STANDS FOR INNOVATIVE METHODOLOGY

The in-house project management method known as KPS Rapid-Transformation® was developed in order to guarantee a targeted and fast solution tailored to the individual requirements of customers and implemented while operations continue to run smoothly.

Strategic development, process individualization and technology implementation largely continue to operate simultaneously with KPS Rapid-Transformation® without any media interruptions between the individual levels.

The optimum project workflow guaranteed as a result of this process facilitates rapid and results-oriented implementation of processes and solutions tailored individually to the requirements of the customer without interrupting operations.

The KPS Rapid-Transformation® Method is based on the following four clearly defined principles:

1 | KPS Simultaneous Engineering: parallel development of strategy, processes, applications, and the necessary infrastructure

2 | KPS All-Star Principle: experienced sector experts possessing the necessary know-how and appropriate project experience

3 | KPS Campus®: early and continuous project involvement of specialist departments and IT in a new team

4 | KPS Rapid Prototyping: rapid simulation and validation of core processes in the system and advanced development of the adopted prototype going forward to the pilot system

Clients benefit from a high level of efficiency and complete project transparency. The KPS Rapid Transformation® Method reduces complexity and risk and accelerates project timelines by up to 50 %.

KPS – VERIFIABLY SUCCESSFUL AND MULTIPLY AWARD-WINNING

The long track record of consulting experience and outstanding sector knowledge of KPS is reflected in a large number of awards, numerous successful projects and a prestigious customer base making up the profile of references and testimonies.

Successful projects and world-class client references

KPS is a world-class consulting partner for retail businesses and carries out work for customers in all segments of this sector, ranging from clothing through furniture to food. Furthermore, KPS is a strong partner for all companies which are reorganizing as part of digitalization and would like to precisely align their organization to match the needs of their customers – whether they are operating in B2B or B2C business. The customers of KPS include major companies from the areas of energy utilities, government agencies, logistics, and consumer goods, as well as from industry and engineering.

In the business year 2017/2018, customers once again achieved important milestones in cooperation with KPS. On Black Friday in December 2017, jewelry business Christ posted a new record for online purchase orders booked. Over a period of several weeks, the company had been working together with KPS to prepare for this event.

In July 2018, the state of Hesse launched its improved “INSPIRATION 2018” Internet platform for purposes harvesting geobasis data. KPS worked together with Ubisense to migrate the available data to a new e-commerce solution.

Up to September 2018, the Globus SB-Warenhäuser retail chain of hypermarkets successfully developed its “My Globus” loyalty program together with KPS. As individualized software solutions were implemented, Globus expanded the existing multichannel business processes, enhanced customer loyalty, and achieved the necessary data protection compliance.

Shortly after the end of the business year 2017/2018, KPS also cooperated with Danish window manufacturer Velux to define new software standards for travel-cost management in order to generate cost-savings and efficiency enhancements. The employees of the Group also benefited from this for the digital recording, forwarding, and approval of their data.

The transformation solutions of KPS are planned and rolled out with particular attention focused on markets, contemporary innovations, and customer aspirations. These sector-specific solutions coupled with reduction of complexity and speed in the course of implementing projects make KPS the preferred partner for digital transformation.

Successful core ERP transformation initiatives in Germany, Europe and the US

Successful E-Commerce projects in Germany, Switzerland, UK, Ireland and Nordics

Successful implementations of cloud solutions for customer experience

Market leader in retail (fashion, grocery, luxury, furniture, electronics, sporting goods ...)

Application Support Services and Site Management Customers in Europe

Marketing leader in retail

Consumer products,
Manufacturing,
Public sector,
Energy & Utilities
Healthcare

KPS – AWARDS, RANKINGS AND PRIZES

In the business year 2017/2018, KPS received a string of awards and prizes and the company was once again represented in the top tier of several sector-relevant ratings.

In April 2018, KPS together with its subsidiary company Infront was awarded the title of Germany's Best Consultants by German business magazine brand eins and the statistics portal statista for the fifth year in succession.

The iFURNITURE order cockpit from KPS is a B2C and B2B app that was developed for the furniture industry. In May 2018, the German SME Initiative conferred the Innovation Prize IT 2018 on the app.

KPS is one of the e-commerce agencies with the biggest sales and the Group improved its position in the latest Internet Agency Ranking of the German Digital Industry Association (BVDW) to number 7.

In 2018, market research company Lünendonk once again listed KPS among the 10 biggest management consultancies in Germany, with KPS being ranked in 6th place.

In July 2018, the company was also awarded the TOP 100 Seal of Approval for special innovative strength and above-average innovative successes by compamedia.

In 2017/2018, KPS subsidiary Infront received two awards: as the Hidden Champion of Digitalization by the Academic Society for Management and Consulting (WGMB), and an annual prize for particularly successful customer projects awarded by prestigious business publication Wirtschaftswoche.

TOP
100

INTERNET AGENTUR RANKING

Ranked 7 in 2018

TOP 100

top100.de

top innovator 2018

Hidden Champion 2018

BESTE BERATER 2014 · 2015 · 2016 · 2017 · 2018

LÜNENDONK

TOP 10 German Management Consultancies
2018

INNOVATIONSPREIS-IT

BEST OF 2018

initiative mittelstand

APPS

For the iFurniture Order Cockpit

Hidden
Champion

Innovation Award 2018

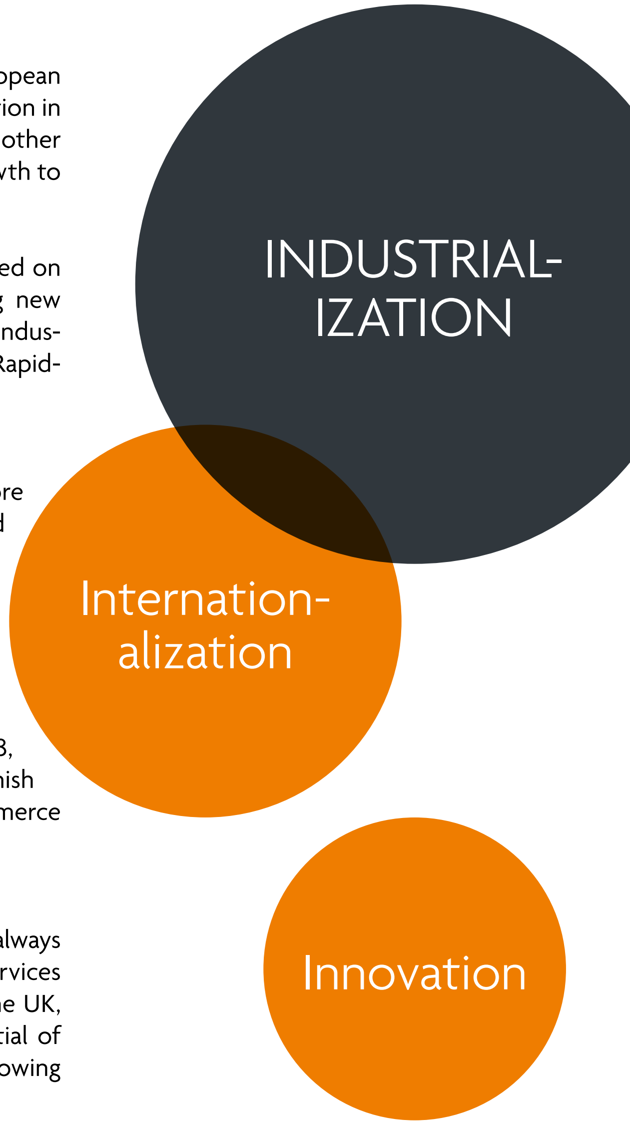
We are pursuing our strategy of growth very consistently. This applies not only to internationalization, but also to opportunities arising from our entry into new industries and the expansion of our offering with innovative, new solutions for our customers.

Matthias Nollenberger, Vice President KPS

KPS – CLEARLY DEFINED GROWTH STRATEGY

KPS is continually working on strengthening its position as a leading European management consultant for business transformation and process optimization in retail companies, while at the same time further enhancing its presence in other sectors. KPS makes use of organic as well as external opportunities for growth to achieve these objectives.

In order to achieve this aim, KPS has defined a clear strategy, which is based on three pillars: internationalization of the consulting business by entering new markets, expanding the range of services offered through innovation, and industrialization of the consulting process by means of the proven and unique Rapid-Transformation® Method that has been developed within the company.



Internationalization

KPS offers services for customers all over world with a workforce of more than 1,000 consultants in 14 branch offices located in Europe and the United States. KPS strategically acquires companies in existing and potential target markets in order to further expand and consolidate its international leadership role.

This gives KPS the capability to have an even more tangible local presence with consultants on the ground, while expanding the Group's in-house service portfolio and developing new sectors. In the business year 2017/2018, KPS expanded its international presence through the acquisition of Spanish company ICE Consultants Europe S.L. in Barcelona and British e-commerce agency Envoy Digital Limited in London.

Innovation

So as to offer customers even better and more individual solutions, KPS is always looking for opportunities to expand its own package of consultancy services with innovations. At the KPS Innovation Centers in Germany, Spain and the UK, employees of KPS work consistently every day on identifying the potential of new technologies and developing concrete application opportunities for growing the business of KPS.

Moreover, KPS expanded its service portfolio in December 2017 through the takeover of Infront Consulting & Management GmbH in Hamburg, a leading strategy consultant for digitalization in German-speaking countries. This gives KPS the capability to compete successfully in the marketplace of the future.

Industrialization

KPS applies a special consulting concept with the Rapid-Transformation® Method for project management. It enables a new process system to be installed with the customer without having to work with old structures.

KPS continually invests in developing and improving this system in order to satisfy individual customer requirements with the input of fewer resources. This approach gives KPS the capability to achieve world-class results within a very short space of time.

FY 2017/2018

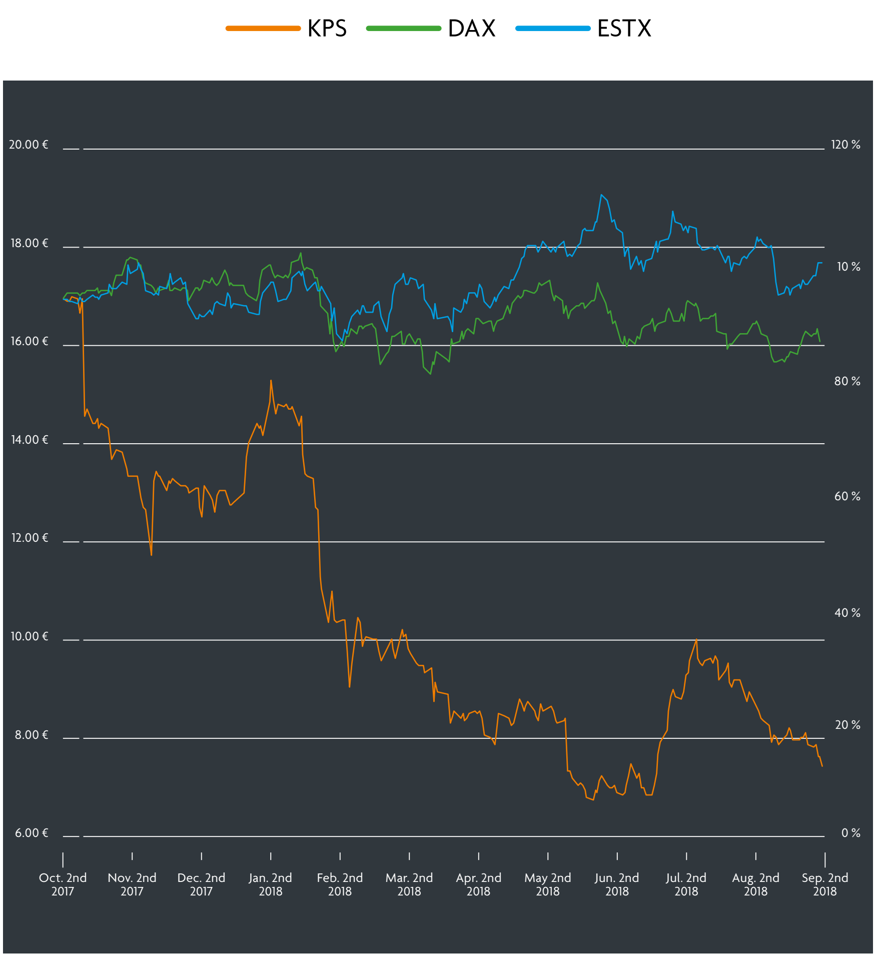
KPS Prime Standard

KPS IN THE CAPITAL MARKET

Price performance in the business year 2017/2018 (1 October 2017 to 30 September 2018)

Overall, the share of KPS AG posted a fall of 56.4 % in the business year 2017/2018. The share price underwent a slide by 38.3 % during the first quarter in particular. In the period from October 2017 to September 2018, the DAX posted a slight loss of 5.1 %. On 2 October 2017, the KPS Group shares started with a price of 16.94 euros in trading and went up to the high for the year at 17.20 euros on 4 October 2017. The share went down to its low for the reporting period at 6.65 euros on 11 June 2018. The shares ended the year under review at a closing price of 7.38 euros on 28 September 2018.

The average daily trading volume of the KPS share on all German stock exchanges increased to 35.076 no-par shares (previous year: 15.166 shares) during the period under review. On 30 September 2018, the market capitalization of KPS AG was 276.1 million euros on the basis of 37,412,100 shares in circulation.



Key data for the share

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

Overview of the share (XETRA)

Opening price (2 October 2017)	16.94 euros
High (4 October 2017)	17.20 euros
Low (11 June 2018)	6.65 euros
Closing price (28 September 2018)	7.38 euros
Trading volume (2 October 2017 to 28 September 2018, average trading volume)	35,076
Market capitalization (28 September 2018)	276.1 million euros

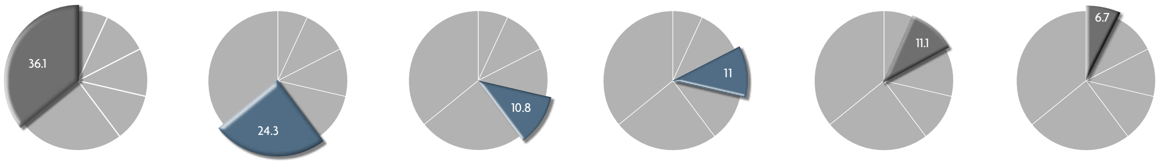
Shareholder structure

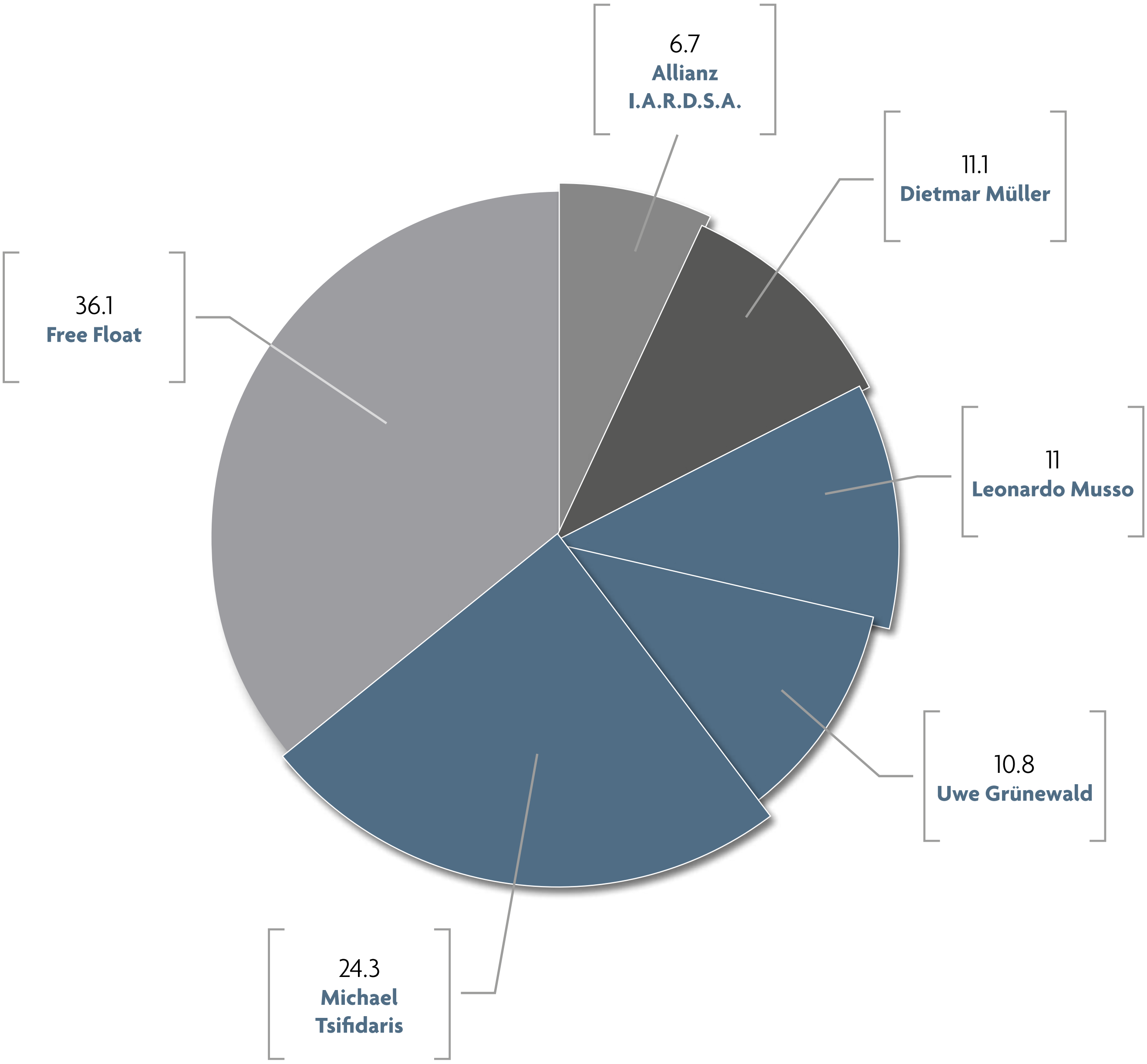
Disclosures are based on the voting rights notifications received pursuant to the Securities Trading Law, WpHG (status: 28 January 2019) and company information; Free float is in accordance with the definition of the German Stock Exchange (Deutsche Börse) with shares in the equity capital of less than 5 %.

On 28 January 2019, the shareholder structure of KPS AG was as follows: The Chairman of the Supervisory Board, Michael Tsifidaris, holds 24.3 % of the shares in the company. Member of the Supervisory Board, Uwe Grünewald, holds 10.8 % of the voting capital stock. Chief Executive Officer of KPS AG, Leonardo Musso, holds 11.0 % of the shares in the company. This means that 46.1 % of the voting shares are held by the current management of KPS AG. These shareholders will continue to remain closely associated with KPS AG as anchor shareholders and members of the governance bodies in future.

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

Voting rights in %





Annual General Meeting 2018

On 23 March 2018, the Executive Board of KPS AG reported to the shareholders at the ordinary General Meeting on the performance of the business year 2016/2017 and responded to their questions. The shareholders approved the actions of the Executive Board and the Supervisory Board for the business year 2016/17, and voted with large majorities to approve the proposals put forward by the company management on all agenda items. The voting results of the ordinary Annual General Meeting can be viewed at www.kps.com under Investor Relations/Annual General Meeting.

The company paid out a total of 13,094,235 million euros as a dividend to shareholders from the net profit amounting to 30.4 million euros reported in the annual financial statements for 2016/2017. The dividend per share amounted to 0.35 euros and consequently rose by 0.02 euros per share compared with the year-earlier amount. The remaining partial amount of the net profit totaling to 17.3 million euros was carried forward to new account.

A dividend of 13.1 (previous year: 12.3) million euros corresponds to a payout rate of 43.1 % of the net profit. A dividend return of 2.1 % was calculated for the last business year based on the opening price of 16.94 euros on 2 October 2017 taking account of the paid dividend of 0.35 euros per share. The total return (share price and dividend return) on the KPS share amounted to -54.4 % during the year under review.

The Executive Management and the Supervisory Board will propose a dividend of 0.35 euros (previous year: 0.35 euros) per share to the shareholders for the past business year 2017/2018.

Financial calendar 2019

29 January 2019	Publication of the figures in the annual financial statements 2017/2018
15 February 2019	Publication of the figures for the 1st quarter 2018/2019
29 March 2019	Ordinary Annual General Meeting in Munich
29 May 2019	Publication of the figures for the half-year 2018/2019
9 August 2019	Publication of the figures for the third quarter 2018/2019

Analysts' research

The performance of the KPS share is continuously analyzed and evaluated by the leading banks Oddo BHF, Warburg, Landesbank Baden-Württemberg (LBBW), and investment company GBC Research. The analysts unanimously emphasize their recommendations to buy the KPS share in their latest studies on business performance and the perspectives of the company. The average target price of the three key analysts was at 12.67 euros above the closing price on 28 September 2018.

Investor Relations

As a company listed in the Prime Standard of the Frankfurt Stock Exchange, KPS AG complied with the highest standards for publicity and transparency of the Regulated Market under statutory regulations and stock-exchange rules during the business year 2017/2018. The company published disclosures immediately to institutional investors, financial analysts and private shareholders about current business development and important events for the share price development of the company.

Alongside publication of financial reports and press releases in German and English, the capital market communication of KPS also included teleconferences for analysts in order to publish quarterly, half-yearly and annual figures. Furthermore, the management of KPS was also in regular contact with market participants and is committed to go beyond its statutory obligations by participating in investor conferences and other discussions in individual investor relations activities.

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

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

Dividend
EUR 0.35

2017/2018

Our vision in the year 2000:

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

2000

- **Foundation of KPS Consulting GmbH**
- **Turnover of 1,2 million Euro**

2004

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

2007

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

2009

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

2014

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

2015

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

2016

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

2017

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

2018

- Acquisition of Envoy Digital Limited, based in Wimbledon, London
- 14 subsidiaries in Europe and USA KPS among the TOP 7 German e-commerce agencies
- KPS among the TOP 6 German Management Consultancies
- KPS among the TOP 100 most innovative medium-sized companies in Germany
- 29.06.18: Laying of the foundation stone for the new building at Lake Phoenix in Dortmund
- **Turnover of 172 million Euro**

“User experience continues to evolve rapidly. We are at the forefront with our team.”

Alisa Ziegenfuß
Senior Manager, Dortmund

“We are committed to providing our clients with long-term, reliable, state-of-the-art customer experience consulting.”

Barnaby Moffat
International Director UK, London

“On the Nordic market, we are the preferred consulting partner for retailers. Our team has the necessary know-how and experience. We are also a leader in the digital sector.”

Jørgen Klüwer
International Director Nordics, Copenhagen

“It‘s great to be able to work in different projects. That‘s what makes my job so rewarding, exciting and challenging.”

Melanie Teuchert
Senior Consultant, Munich

“The corporate cultures of KPS and ICE Consultants were very similar. Now we are one team and can offer even more comprehensive services to our existing and future customers in Spain.”

Javier Ojeida Pan
International Director Spain, Barcelona

2017/18

KPS GROUP **MANAGEMENT REPORT**

1 FUNDAMENTALS OF THE GROUP

1.1 Business model and methodological expertise

KPS provides its customers with advice on strategic, process, application and technology issues relating to digital transformation, and implements holistic sector-specific and turnkey solutions with products from software manufacturers SAP, Hybris, Adobe, and Intershop. KPS pursues an integrative, end-to-end approach and advises its customers about the entire spectrum of services along the value chain: classic merchandise and branch management, finance, B2B and B2C commerce, and digital customer management in marketing and sales.

KPS is a hallmark for innovative methodology. Our clients benefit from a high level of efficiency and complete project transparency with the KPS Rapid-Transformation® Method. As far as possible, strategic development, process design and implementation of applications are operated simultaneously without any media interruptions between the individual levels. This significantly reduces project run times and project costs. Company transformations undergo tangible acceleration with verified safeguarding of the highest implementation quality, and reduction of complexity and risk.

Since KPS was established, the company has consistently given itself a distinctive profile by comparison with its competitors in three areas: the long track record of project experience and in-depth sector knowledge of its consultants, the KPS Rapid-Transformation® Method, and the company's robust platform of reference customers.

1.2 Service and customer structure

KPS is one of the most successful consulting companies for business transformation and process optimization in the course of digitalization. KPS is a leading management consulting firm in Europe with a sales volume of around 172.2 million euros. Market research company Lünendonk ranks KPS among the top 10 consulting firms in Germany[1].

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

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

1.3 Consultation and service portfolio

The most innovative solution will be a crucial factor in outperforming the competition in the future. A digital transformation and omnichannel strategy across the company already now constitutes the enabler for overcoming highly complex challenges. A customized approach and business management in real time require a fundamental change in operational and cultural mindset across

1 https://luenendonk.de/pressefeed/luenendonk-liste-2018-die-top-10-der-deutschen-management-beratungen

the entire organization. The implementation of digital business models with innovative IT technologies is therefore the crucial challenge in the global market for consultancy and service packages.

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

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

1.4 Research and development

KPS invests in the area of research and development, and this is mainly directed toward improvements in the technical integration of different software platforms like SAP and Hybris. We regard ourselves as the market leader among management consultants for this integration process. KPS also invests in the development of new operating concepts for software applications. Since the business year 2015/2016, intensive development work has been carried out on standardizing SAP processing streams. In the business year 2017/2018, 2.3 (previous year: 4.8) million euros were posted as own work capitalized. The developments capitalized as assets in the business year were only partly completed on the balance sheet date and amortization amounted to 0.1 million euros.

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

1.5 Group structure and branch offices

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

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

In the business year 2017/2018, the KPS Group was able to establish its position as a leading provider in the area of digital transformation in Europe through further company acquisitions.

KPS AG – a leading
German consulting firm
for designing digital transformation in retail companies.

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

“Everybody speaks about Customer experience. We are not only the market leader for SAP Commerce solutions in the UK, we cover the entire service portfolio: from commerce to CRM to marketing.”

Branwell Moffat
International Director UK, London

“What I like about KPS is the helpfulness of my colleagues. Working out solutions in a team is fun and you learn a lot more.”

Michael Glasder
Developer, Dortmund

“We have a yes we can attitude. This makes us really strong and gives a lot of self-confidence, to each individual, but also to the team. I am proud to be part of this company and of our success over the last few years.”

Guido Simonis
Managing Partner, Munich

“My work at KPS isn‘t just a job – it‘s a matter of the heart.”

Sabrina Jung
Manager, Heilbronn

“With the expertise of KPS and ICE Consultants, we are very well positioned to further expand our market position not only in Spain but also internationally.”

Lluís Rovira Sans
International Director Spain, Barcelona

The acquisition of Hamburg-based Infront Consulting & Management GmbH in January 2018 opened up strategic access to new customer segments. In future, Infront Consulting will operate as an independent brand within the KPS Group and will act as the spearhead for strategic consulting on the topic of digital transformation.

However, KPS also drove forward its internationalization strategy during the course of the business year under review. In October 2017, KPS took over ICE Consultants Europe S.L. from Barcelona, Spain. In February 2018, KPS acquired Envoy Digital Limited from London. The acquisitions will not only empower KPS to secure access to markets and customers, the purchase of new technological know-how is also continuously expanding the range of services supplied.

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

1.6 Location and employees

The employees of KPS impress their customers through their expert knowledge and their exceptional commitment. This is based on a high level of specialist qualification and continuous advanced training for all personnel. We also apply these standards when appointing new employees. The key guiding principles are an optimum customer-centric approach, exceptional performance and commitment, safeguarding and improvement of the KPS quality standards, and a positive working environment. On 30 September 2018, the KPS Group employed a total of 591 employees (previous year: 487). This means that the workforce increased by 104 employees or 21.4 % in the business year 2017/2018. The increase is essentially due to the acquisitions carried out in the first half of the reporting year. In Germany, we employ a workforce of 457 employees (previous year: 457), which is equivalent to a share of 77.3 % (previous year: 93.8 %) in the Group overall. The average number of employees in the year under review amounted to 565 (previous year: 454). The rise by 111 employees or 24.4 % is primarily based on the increase in business volume and the company acquisitions undertaken.

Personnel expenses increased by 8.9 million euros or respectively by 16.7 % to 62.2 (previous year: 53.3) million euros in the business year 2017/2018.

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

Employees of the KPS Group

	30.09.2018	30.09.2017	Change
Employees by region			
Germany	457	457	0
Spain	65	0	65
United Kingdom	35	0	35
Denmark	20	16	4
Switzerland	8	12	-4
Austria	5	0	5
Netherlands	1	2	-1
Total	591	487	104
Employees by function			
Executive Board	1	1	0
Managing Directors	14	5	9
Consultants	508	426	82
Administration	67	53	14
Apprentices	1	2	-1
Total	591	487	104

Alongside the Managing Directors listed above, the Member of the Executive Board of KPS AG, Mr. Leonardo Musso, also holds posts as a Managing Director (in a total of 14 additional companies). From 30 September 2018, 15 persons were therefore employed as Managing Directors in the KPS Group.

1.7 Group controlling system

A monitoring and controlling system is in place at the KPS Group which is directed toward increasing the value of the entire Group. Targets are derived from the system and defined for the individual segments and the Group company. Controlling is managed at the Group level and is implemented through the segments down to the individual profit center levels. Periodic controlling is carried out on the basis of the international accounting and valuation principles. Alongside sales, EBITDA and EBIT, specific segment and profit-center indicators are used as indicators for controlling. We refer to the financial and non-financial performance indicators under Section 3.4 for the changes by comparison with the previous year.

Particularly in the field of digital strategy consulting, the course is often set early on for further transformation projects at the process and technology level.
Our Infront consulting team acts as the spearhead of the group and at the same time gives us access to new industries.

Dr. Michael Mirz, Vice President KPS

2 BUSINESS REPORT OF THE KPS GROUP

2.1 Macroeconomic development

2.1.1 Development of the global economy

Upswing with greater downside risks

According to the International Monetary Fund (IMF), growth of the global economy at 3.7 % in 2017 was once again slightly stronger than in 2016 (3.2 %). The IMF has predicted a continuation of stable growth at 3.7 % for the years 2018 and 2019, and thereby reduced its last forecast from April 2018 by 0.2 percentage points. While the expectation continues to remain positive, economists are issuing warnings about the increased downside risks and a potential change in trend in important economies. The threat of the latest trade conflicts becoming more intense is particularly significant in depressing future prospects.[2]

These conflicts have already led to a correction in growth expectations for a number of Asian economies, including China. In the eurozone and the United Kingdom, unexpected impacts also resulted in a lower forecast at the beginning of the year 2018, while energy exporters are likely to benefit from rising oil prices. Alongside trade conflicts, changes in fiscal and monetary policy, and rising rates of inflation present short-term risks for the developed economies. As the risks of a downturn increase, the IMF economists are expecting lower increases in production over the medium term owing to slower population growth and low productivity increases, particularly in the industrialized countries.

The protectionist measures already implemented or announced will exert a significant impact particularly on Asian economies over the medium term, but the same also applies to other emerging economies such as Turkey or Argentina, whose economies are threatened by a reversal of global capital flows.[3]

2.1.2 Development in the eurozone

Slower growth while operating at full capacity

According to the Kiel Institute for Economic Research (IfW), economic growth in the eurozone experienced a modest slowdown in 2018 by comparison with the previous year. However, the framework conditions remain positive for the time being with low interest rates and an expansive financial policy. Following the forecast expansion of 2.1 % for 2018, the economists at the Kiel Institute expect growth for the subsequent two years of 1.9 % (2019) and 1.7 % (2020). Production capacities are already operating at above-average utilization and the unemployment rate is undergoing significant decline. These factors are now becoming evident in rising wage levels, and in the near future they will lead to tensions in labor markets at many locations. In this context, an annual inflation rate around 1.7 % is once again expected for consumer prices in the years 2018-2020.

Alongside trade conflicts and a possible economic slump experienced by important trading partners, there are significant risks of a downturn here resulting primarily from the United Kingdom exiting from the EU without a deal on future trade cooperation, and a potential conflict between the Italian government and its European partners.[4]

2 https://www.imf.org/en/Publications/WEO/Issues/2018/09/24/world-economic-outlook-october-2018
3 https://www.imf.org/en/Publications/WEO/Issues/2018/09/24/world-economic-outlook-october-2018
4 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2018/KKB_46_2018-Q3_Euroraum_DE.pdf

2.1.3 Development in Germany

Increasing net wages, depressed perspectives in export trade

Economists at the IfW expect growth to continue in Germany, although this will be at a slower pace. The anticipated increase in production for 2018 is now 1.9 % or 2.0 %. Just as in the case of the eurozone, production capacities here are increasingly fully utilized and companies are evidently not in a position to continue expanding growth rapidly. The labor force available in the employment market is becoming increasingly restricted. Rising wages and social benefits accompanied by falling levy rates mean that the net wage bill is expected to increase by 5.3 % in 2019. This will be reflected in rising private consumption. Over the short term, this situation combined with an expansive fiscal policy is likely to continue supporting the economic boom. The ongoing robust global economy will continue to drive export growth after a weak phase at the beginning of the year. Growth in foreign trade is only expected to ease in 2020 according to the forecast for the key trading partners.[5]

2.2 Sector-specific framework conditions

2.2.1 Management consultants drive digital transformation forward in Germany

Although the boom in the management consulting sector from previous years continued in 2018, sentiment among companies eased slightly from the second quarter onward. In line with the picture for the sentiment index of the economy overall, the Business Climate Index published by the Federal Association of German Management Consultants (BDU) had fallen marginally by the end of the second quarter in 2018, but it continued to remain in positive territory and was above the IFO Business Climate Index for the economy as a whole published by the Ifo Institute – Leibniz Institute for Economic Research at the University of Munich.[6]

In the case of management consulting companies, too, the depressed sentiment is attributed to the overarching uncertainties engendered by potential trade conflicts and the uncertain outcome of the Brexit negotiations. Nevertheless, 37 % of the companies surveyed by the Federal Association of Management Consultants (BDU) expected an improvement in the business situation, whereas 9 % anticipate a deterioration. The fundamental topics of digital transformation are likely to continue exerting a positive influence on the business of management consultants.[7]

Regardless of the somewhat less optimistic sentiment, sales in the sector continued to grow by 8.5 % throughout 2017 to 31.5 billion euros and more than half of the companies appointed additional consultants to produce a net increase in the workforce. Within this framework, digital transformation remains the prime driver in the sector, and issues related to big data and customer centricity continue to be the central focus of attention throughout the sector. The retail sector continues to be regarded as the key growth driver for consultants.[8]

5 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2018/KKB_47_2018-Q3_Deutschland_DE.pdf

6 https://www.bdu.de/media/352646/geschaeftsklimabefragung_2q2018.pdf

7 https://www.bdu.de/media/352646/geschaeftsklimabefragung_2q2018.pdf

8 https://www.bdu.de/newsletter/ausgabe-22018/facts-figures-zum-beratermarkt-consultants-weiter-im-hoehenflug/

2.2.2 Positioning of the KPS Group

Digitalization as a competitive factor in retail

Ongoing digitalization will continue to shape the development of companies in stationary retailing and in the e-commerce sector, but also in other sectors. Complexity and the increasingly short-term nature of business will also accelerate the requirement of customers for consulting – particularly in the course of an economic upswing. High inputs for resources such as personnel, know-how and funds will be required in order to successfully meet the burgeoning pressure for innovation. Not every company will be able to keep pace with this highly dynamic momentum. This is where IT consulting companies can help by providing assistance for customers with the transformation process of business models into the digital world. Big data, omnichannel solutions and supply-chain management are just some of the fields where expert consulting and tailormade measures enable successes to be achieved quickly and sustainably. Consultancy companies like KPS with its Rapid-Transformation® Method have a competitive advantage since they proactively and promptly implement projects in the area of service, product and process innovations.

It is by no means surprising that the Top 10 German management consultancies continued their upward trajectories in the year 2017 with an increase of around 12.5 % in total sales inside and outside Germany to some 2 billion euros compared with the previous year. According to market research company Lünendonk & Hossenfelder, the leading management consultancies in Germany exceeded the forecast from the previous year for the fourth time in succession. This result was achieved with a workforce of around 8,100 employees, which was 5.2 % more than in the previous year (7,700). Since the increase in sales outstripped the growth in employees, per-capita sales and productivity once again went up in 2017. KPS AG is particularly efficient in a comparison of sales with the number of employees. On average, each of the 591 KPS employees in the workforce overall generated 28 % more sales in the business year 2017/2018 than the sector average in 2017. The KPS Group has consolidated its place in the Lünendonk & Hossenfelder Ranking of German management consultancies and continues to be positioned among the Top 10 of German consultancy companies[9].

2.3 Business performance

In the business year 2017/2018, the KPS Group once again grew significantly with sales growth of 7.4 % to 172.2 million euros. On the one hand, sales growth is primarily due to increased sales from transformation projects newly acquired during the period under review. On the other hand, the new companies purchased during the reporting period ICE Consultants Europe S.L., Barcelona, Spain, Envoy Digital Ltd, London, United Kingdom, and Infront Consulting & Management GmbH, Hamburg, contributed total sales in the sum of some 19.5 million euros. A fall in sales amounting to 18 million euros from orders of a major customer was therefore compensated by the additional sales generated by new company acquisitions.

This year, the position of KPS as a leading consulting firm for digital transformation projects in the retail sector was once again reflected in the conferment of numerous awards. These accolades included the ranking as Best Consultant in several categories for KPS and its subsidiary Infront Consulting awarded once again by German business magazine brand eins, together with the statistics portal statista. Moreover, KPS was again ranked among the TOP 100 most innovative

9 https://luenendonk.de/pressefeed/luenendonk-liste-2018-die-top-10-der-deutschen-management-beratungen

companies in the German small and mid-size sector this year. KPS is also continuing its climb to the top in the annual rankings published for Internet and e-commerce agencies.

The clear focus on innovative, sector-specific and turnkey solutions for digital transformation and the high pace of implementation empowered by the Rapid-Transformation® Method continued to be the growth drivers for the group of companies in the business year 2017/2018 under review. The iFURNITURE order cockpit was paradigmatic for KPS AG. The app was developed for a leading furniture retailer and it was included in the app Best List of INNOVATION AWARD IT 2018. Furthermore, a leading jewelry retailer posted a new record for incoming purchase orders at the Black Friday Sale in December 2017 with the support of KPS. The tailormade solutions developed by KPS significantly enhanced the performance of the shop system and as a result optimized the conversion rate. Hardware and software were upgraded and improved by KPS. In Germany and other European countries, the business year 2017/2018 saw the acquisition of new projects in retail and other sectors, and in a range of different consulting areas – ERP, finance/HR, procurement, retail, e-commerce, marketing and sales, and application management. Particularly in the fledgling area of SAP marketing (formerly SAP Hybris marketing), KPS was able to position itself as a leading consulting partner for SAP at a very early stage with a number of successful customer projects. In the Scandinavia region, KPS was the first ever consulting firm to be certified by SAP as an implementation partner for the Concur SAP solution, which is driving forward digitalization in the area of finance/HR, and the company has again strategically expanded this area of consultancy.

In 2017/2018, the KPS Group succeeded in further consolidating its position as a leading provider in the area of digital transformation in Europe, opening strategic access to new customer segments with the takeover of Hamburg-based Infront Consulting & Management GmbH in January 2018, and continuing international expansion with the takeover of Envoy Digital from London. In future, Infront Consulting will operate as an independent brand within the KPS Group and will have the role of spearheading strategic consulting on the issue of digital transformation. Once again, Envoy Digital received awards for its quality and performance, and is an SAP Hybris Gold Partner and Partner Center of Expertise. The KPS subsidiary uses SAP Hybris (new: SAP Commerce) in order to connect in-store and online shopping, with the objective of creating the perfect and sustainable consumer experience at all touchpoints and thereby confer a competitive advantage on its customers. It is particularly striking that Envoy Digital generates some 50 % of its sales with critical customer projects which had previously faltered in the hands of competitors. Envoy Digital's customers include Dreams, the United Kingdom's leading manufacturer of beds, OFFICE Shoes and L.K. Bennett. KPS had already driven forward its internationalization strategy in August 2017 by taking over ICE Consultants Europe S.L. from Barcelona, Spain. The purchases have provided KPS with access to markets and customers, and the acquisitions have facilitated expansion of the range of services provided with new technological know-how. KPS is thereby further strengthening a market position in Germany and Europe as one of the few consulting partners with the capability to support its customers across all areas – from strategic alignment to implementation of processes and technologies.

KPS has also been proactive within the company by progressing further digitalization of processes and activities. The digital communication platform has been up and running since the middle of 2017 and this was further expanded. It is now being used in the process of onboarding for new employees. All processes related to travel management and travel-cost accounting were digitalized throughout the company. They are now carried out entirely paperless using the SAP solution Concur and deploying various travel platforms and mobile service providers. Invoice checking and approval has also been digitalized. All company processes were audited for their conformity with the new General Data Protection Regulation (Datenschutzgrundverordnung, DSGVO) and amended and standardized as necessary. In the third quarter, the digitalization of marketing and sales processes was initiated with the assistance of the new SAP Cloud solutions. The rebranding measures for the two subsidiaries ICE Consultants in Spain and Envoy Digital in the United Kingdom were commenced in the third quarter of 2018 and they will be completed during the course of 2019. This means that these two companies will also have a profile in the marketplace under the KPS brand. KPS worked together with its customers at the KPS Innovation Centers to test new technologies such as artificial intelligence/machine learning and chatbots in projects.

Space for new growth continues to be created in Dortmund. The foundation stone for the new building with floor space of more than 8000 m^2 was laid on 29 June 2018. At the new location, KPS is strategically creating new perspectives and scope for intensive cooperation with its customers in the design center and process factory. The complex will enable the management and the specialist departments to gain insights into the design process, and to experience new forms of cooperation from the development of their new website, through a completely new company portal, to the rapid prototyping of future corporate processes. They will also be able to cooperate in this development. Strong growth rendered necessary the change in location and the expansion of office space. The relocation to the new offices of KPS at Lake Phoenix is planned for autumn 2019.

Business performance by segments and regions

The structure of sales on the basis of reportable segments has only changed slightly compared with the previous year. 87.8 % (previous year: 91.3 %) of the sales were generated in the segment Management Consulting/Transformation Consulting. 0.8 % (previous year: 1.2 %) of the sales were generated in the System Integration segment. 11.5 % (previous year: 7.4 %) of the sales originated from business with products and licenses.

The breakdown of revenues by regions yields the following pictures for the business year 2017/2018: Germany was the primary sales mainstay with 129.3 (previous year: 130.5) million euros or 75.1 % (81.4 %), followed by Scandinavia with a volume of 16.4 (previous year: 15.8) million euros or 9.5 % (previous year: 9.9 %). This is followed by Spain with a volume of 11.8 million euros and a share of 6.9 %. Then come the Benelux countries with 6.8 (6.7) million euros or 4 % (previous year: 4.2 %), and the United Kingdom with 4.0 million euros or 2.3 % and the USA with 2.1 (previous year: 2.6) million euros or 1.2 % (previous year: 1.6 %). The remaining revenues amounted to 1.8 (previous year: 0.7) million euros or 1 % (previous year: 0.4 %) and were principally generated in the other EU countries.

2.3.1 Order backlog

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

The average rates of utilization capacity for KPS Consultants stabilized over the entire business year 2017/2018 at the very high level of virtually 100 %. Once again, this matched the already excellent capacity utilization in the reporting period 2016/2017. KPS is operating among the premier leading field of consultants with this rate of capacity utilization.

2.4 Results of operations, capital structure and asset situation

Overview of the results of operations, capital structure and asset situation

in million euros	2017/2018	2016/2017
Group sales	172.2	160.3
EBITDA	20.0	26.4
EBIT	16.6	24.8
Group earnings	9.8	19.8
Earnings per share (in euros)	0.26	0.53
Cash and cash equivalents	9.1	6.7
Financial liabilities	21.2	0.0

2.4.1 Results of operations of the KPS Group

KPS was able to derive significant benefit from the economic and sector-specific development, and sales increased significantly during the business year under review compared with the previous year. Key drivers for growth included the trust placed in us by major customers from the retail sector and the consumer goods industry, with increasing demand for highly integrated digital transformation solutions. Furthermore, the new subsidiaries acquired in the business year 2017/2018 contributed to Group sales: Infront Consulting & Management GmbH (Hamburg, Germany) for the first time 3.0 million euros, Envoy Digital Limited (London, United Kingdom) 3.9 million euros, and ICE Consultants Europe S.L. (Barcelona, Spain) 11.6 million euros. During the period under review, earnings before interest and income taxes (EBIT) came down primarily as a result of M&A-related depreciation and amortization in the context of the expansion and internationalization strategy to 16.6 million euros (previous year: 24.8 million euros).

Overview of the income statement of the KPS Group

in KEuros	2017/2018	2016/2017
Revenues	172,223	160,297
Own work capitalized	2,832	5,141
Other operating income	3,233	2,820
Cost of materials	-68,489	-67,574
Personnel expenses	-62,187	-53,270
Other operating expenses	-27,588	-21,002
Operating result before depreciation and amortization (EBITDA)	20,023	26,412
Depreciation and amortization (M&A adjusted)	-849	-814
Operating result (EBIT) adjusted	19,174	25,598
Depreciation and amortization (contingent on M&A)	-2,581	-843
Operating result (EBIT)	16,593	24,755
Financial result	-1,326	1,081
Earnings before income taxes *	15,267	25,836
Income taxes	-5,436	-6,037
Earnings after income taxes	9,831	19,799

* corresponds to the result from ordinary business activities

Revenues
Revenues rose by 7.4 % to 172.2 (previous year: 160.3) million euros in comparison with the previous year. The result was therefore slightly higher than the forecast of 160 – 170 million euros issued on 31 January 2018.

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

Similar to the previous year, one major client is included in the "Management Consulting/Transformation Consulting" segment in accordance with IFRS 8.34. The revenues generated amount to 41.8 (previous year: 59.9) million euros.

Own work capitalized
Own work capitalized amounted to 2.8 (previous year: 5.1) million euros over the course of the business year under review. This essentially relates to intangible assets valued at 2.3 million euros developed in-house (development costs) for SAP process streams and internally generated software amounting to 0.5 million euros.

Digitalization continues to drive growth in the consulting market. We support our clients in developing digital strategies and business models, and in completely realigning processes, but also technologies, with their customers at the center.

Josef Richter, Vice President KPS

The total amount of development costs incurred in the business year 2017/2018 was capitalized under assets. No research work was carried out.

Other operating income

As was the case in the previous year, other operating income includes income from operational additional services, such as gains from currency differences, income from releases of provisions, or discounts. Furthermore, 1.1 million euros are recognized under other operating income for the release of the earn-out instalment in the context of the acquisition of shares in Saphira, because the contractually agreed target parameter was not achieved. 1.0 million euros are also recognized under other operating income for the release of the first earn-out instalment in the context of the acquisition of shares in Infront Consulting & Management GmbH, because here too the contractually agreed target parameter was not achieved. Overall, other operating income increased by 14.7 % to 3.2 (previous year: 2.8) million euros during the period under review compared with the previous year. The strong increase essentially results from the release of earn-out liabilities.

Cost of materials

During the period under review, the cost trend adjusted appropriately to business performance, taking into account the significant increase in sales. The project-related cost of materials, which primarily includes the costs for bought-in subcontracted services, went up by 0.9 million euros (+1.4 %) from 67.6 million euros to 68.5 million euros. The expenses for purchased hardware and software increased significantly to 7.9 (previous year: 3.2) million euros compared with the reporting period 2016/2017. The main reason for the increase was because KPS also supplied software and hardware as commercial products during the course of carrying out projects.

Personnel expenses

Personnel expenses amounted to 62.2 (previous year: 53.3) million euros and these expenses increased by 8.9 million euros (+ 16.7 %) compared with the equivalent year-earlier reporting period. At the end of the business year 2017/2018, 591 employees were working in the KPS Group (previous year: 487). As in the previous year, the growth in the workforce is due to the increase in the number of new appointments made in the course of the ambitious expansion of the workforce during the reporting period. An additional impact was provided by the incorporation of employees through the company acquisition of Infront Consulting & Management GmbH and Envoy Digital Ltd, and the purchase of the Spanish subsidiary company ICE Consultants Europe S.L.

Other operating expenses

Other operating expenses increased by 31.4 % to 27.6 (previous year: 21.0) million euros compared with the equivalent year-earlier reporting period. They mainly include travel expenses and vehicle operating costs amounting to 10.6 (previous year: 8.8) million euros, legal, auditing and capital-market costs at 2.4 (previous year: 1.7) million euros, non-project-related subcontracted services at 2.5 (previous year: 2.5) million euros, and premises and operating costs at 3.7 (previous year: 2.9) million euros.

Depreciation and amortization

Total depreciation and amortization (depreciation and M&A-related amortization) rose to 3.4 (previous year: 1.7) million euros. The reason for the increase is amortization of intangible assets acquired in connection with the acquisition of

Infront Consulting & Management GmbH amounting to 0.3 million euros, Envoy Digital Ltd amounting to 0.1 million euros and the Spanish subsidiary company ICE Consultants Europe S.L. amounting to 0.9 million euros. Amortization amounting to 1.2 million euros was recognized in the current business year for the subsidiary company Saphira Consulting A/S acquired in the business year 2016/2017.

Financial result
The financial result of the Group is negative in the year under review and amounts to -1.3 (previous year: 1.1) million euros. The negative financial result essentially comes from compounding of the earn-out liabilities arising in connection with the acquisition of Infront Consulting & Management GmbH and Envoy Digital Ltd and ICE Consultants Europe S.L. with a total amount of 0.9 million euros.

Income taxes
The total amount of taxes on income and earnings amounting to 5.4 (previous year: 6.0) million euros includes current expenses for corporate income tax, solidarity surcharge, and trade tax amounting to 3.2 (previous year: 1.6) million euros, and expenses from deferred taxes amounting to 2.2 (previous year: 4.4) million euros.

Earnings after income taxes
The consolidated income from the period under review fell by 50.3 % from 19.8 million euros to 9.8 million euros.

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

Development of equity
The share in equity attributable to shareholders of KPS AG decreased by 1.1 million euros compared with the previous year and amounted to 65.1 (previous year: 66.2) million euros on 30 September 2018. The equity ratio came down from 64.3 % to 46.5 %, compared with the balance sheet date in the previous year. A detailed explanation is provided in the statement of changes in shareholders' equity.

Development of liabilities
Apart from deferred tax liabilities amounting to 28.0 (previous year: 4.6) million euros, non-current liabilities amounting to 2.2 (previous year: 1.7) million euros primarily relate to personnel and pension obligations amounting to 3.1 (previous year: 2.4) million euros and liabilities for the earn-out payments likely to be expected amounting to 10.3 (previous year: 0.5) million euros. Furthermore, KPS AG floated a long-term loan in the context of a company acquisition, which is being capitalized under non-current liabilities with a residual amount of 12.4 million euros on the balance sheet date.

An increase in current liabilities by 14.8 million euros to 46.8 (previous year: 32.1) million euros was posted by comparison with the balance sheet date for the previous year. The change essentially results from taking out short-term money-market loans to secure liquidity amounting to 5.0 million euros and from a reclassification of non-current financial liabilities amounting to 3.8 million euros contingent on the residual term. The other liabilities increased by 5.7 million euros to 12.5 (previous year: 6.8) million euros. The reason for the increase is earn-out liabilities recognized under liabilities in the income statement amounting to 7.1 (previous year: 0.6) million euros.

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

Trade liabilities decreased by 0.6 million euros from 11.5 million euros to 10.9 million euros.

Advance payments received rose by 0.5 million euros and amounted to 2.1 million euros on the balance sheet date. The increase results from advance payments received for a customer-specific production order.

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

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

On 30 September 2018, the KPS Group had cash amounting to 9.1 (previous year: 6.7) million euros. On the balance sheet date, total liabilities to banks amounted to 21.2 million euros. These result from floating a long-term loan with a total term of five years for financing company acquisitions in the amount of 16.2 (previous year 0) million euros and taking out short-term money-market loans to safeguard liquidity amounting to 5.0 (previous year 0) million euros. Taking account of the money-market loans, net liquidity on the balance sheet date amounts to 4.1 million euros and this has therefore come down by 2.6 million euros as compared with the year-earlier figure.

Cash flow from current activities amounted to 17.8 million euros in the year under review compared with 16.8 million euros in the previous year. Cash flow from investment activities amounted to -24.9 (previous year: -12.4) million euros and relates to the investments initiated in fixed assets and company acquisitions. Cash flow from financial activities amounted to +2.8 (previous year: -12.3) million euros in the business year under review.

There were unused credit lines amounting to 16 million euros on the balance sheet date.

2.4.3 Net assets

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

in KEuros	2017/2018	2016/2017
Non-current assets	85,247	51,910
Current assets	54,620	50,973
Total assets	139,867	102,883
Shareholders' equity	65,080	66,188
Non-current liabilities	27,960	4,644
Current liabilities	46,827	32,051
Total liabilities	74,787	36,695
Total shareholders' equity and liabilities	139,867	102,883

The KPS Group has a term-congruent balance sheet structure. The increased business scope is reflected in the balance sheet total. On 30 September 2018, this amounted to 139.9 (previous year: 102.9) million euros, increasing by 37.0 million euros or 35.9 % compared with the previous year.

Development of assets

The assets tied up in medium to long-term assets amount to 85.2 (previous year: 51.9) million euros on the balance sheet date.

These primarily relate to the goodwill from earlier acquisitions of KPS AG and acquisitions made in the current business year amounting to 62.6 (previous year: 32.2) million euros.

In the business year under review, the following company acquisitions were made:

a) On 2 October 2017, KPS AG acquired 100 % of the shares in ICE Consultants Europe S.L., Spain. Over the course of the business year, purchase price payments amounting to 10,354 KEuros were made. Other payments of 9,753 KEuros are anticipated in subsequent years up to 2022.
b) On 2 January 2018, KPS AG acquired 100 % of the shares in Infront Consulting & Management GmbH. During the business year, purchase price payments amounting to 4,644 KEuros were made, and treasury shares were transferred with a fair value of 1,934 KEuros. Other payments of 4,628 KEuros are anticipated in subsequent years up to 2023.
c) On 9 February 2018, KPS AG acquired 100 % of the shares in Envoy Digital Limited, United Kingdom. In the business year, purchase price payments amounting to 5,996 KEuros were made. Other payments of 4,916 KEuros are anticipated in subsequent years up to 2023.

Other intangible assets amounted to 16.2 (previous year: 10.0) million euros in the period under review. The increase results from capitalization of development costs as assets amounting to 2.3 million euros and capitalizing internally generated software as assets amounting to 0.5 million euros. Furthermore, intangible assets amounting to 6.0 million euros were capitalized as assets in the context of company acquisitions made. On the balance sheet date, property, plant and equipment amounted to 1.0 (previous year 1.0) million euros.

During the year under review, 33.8 (previous year: 6.0) million euros were invested in property, plant, and equipment, and intangible assets.

The capitalized deferred taxes amount to 5.5 (previous year: 8.6) million euros.

Receivables from future production orders, trade receivables, and other assets recognized under current assets amounting to a total of 45.3 (previous year: 44.2) million euros increased by 1.1 million euros compared with the equivalent year-earlier value.

2.4.4 Appropriation of profits

Earnings after income taxes amounted to 9.8 million euros in the year under review and therefore decreased by 10.0 million euros compared with the previous year (19.8). For the proposed dividend of 13.1 (previous year: 13.1) million euros, the payout rate would amount to 133.2 % of Group earnings. This dividend proposal takes account of the profitability and the dependable payout continuity of KPS AG.

2.5 Financial and non-financial performance indicators

2.5.1 Calculation of EBITDA

In order to improve the information provided on the operating result for the company, EBITDA will also be used as a performance indicator in future.

This was necessary since significant expenditure from the non-operating area is included in EBIT as a result of the company acquisitions and the associated amortization of intangible assets. In order to increase transparency, this amortization is recognized separately in the income statement as “Amortization M&A related”.

EBITDA decreased by 6.4 million euros from 26.4 million euros in the previous year to 20.0 million euros during the business year 2017/2018. This corresponds to a reduction of 24.2 %.

The EBITDA margin came down by 4.9 percentage points to 11.6 % (previous year: 16.5 %) based on sales of 172.2 (previous year: 160.3) million euros.

2.5.2 Calculation of EBIT

EBIT as an indicator of the overall operating and non-operating result for the company came down by 8.2 million euros from 24.8 million euros in the previous year to 16.6 million euros in the business year 2017/2018. Compared with the equivalent year-earlier period, the decrease amounted to 33.1 %.

In order to increase transparency, apart from EBIT an adjusted EBIT (operating result adjusted) will also be recognized which records the operating result (EBIT) before “Amortization M&A related”.

Based on sales of 172.2 (previous year: 160.3) million euros, the EBIT margin came down by 5.8 percentage points to 9.6 %.

The forecast issued on 31 January 2018 of EBIT amounting to between 23 and 26 million euros was not achieved in the business year 2017/2018 mainly owing to the impacts of a company acquisition. Accordingly, the Executive Board of KPS AG had adjusted the earnings forecast on 29 May 2018. EBIT of 16.6 million euros achieved in the business year 2017/2018 lies within the earnings forecast issued there of between 16 and 20 million euros.

2.5.3 Calculation of sales

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

The original expectations of 160 – 170 million euros were slightly exceeded with revenues of 172.2 (previous year: 160.3) million euros.

Sales volume amounted to 151.2 (previous year: 146.4) million euros and the KPS Group generated the lion's share from management consultancy projects with prestigious customers from retail and the consumer goods industry. The other two main segments of system integration and products/licenses contributed 1.3 (previous year: 2.0) and 19.7 (previous year: 11.9) million euros respectively to annual sales.

2.5.4 Personnel

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

On 30 September 2018, the KPS Group employed a total of 591 employees (previous year: 487). This means that the workforce increased by 104 employees or 21.4 % in the business year 2017/2018. This is essentially due to the expansion of business activity. In Germany, we employed a workforce of 457 employees (previous year: 457), which is equivalent to a share of 77.3 % (previous year: 93.8 %) in the Group overall. The average number of employees in the year under review amounted to 565 (previous year: 454) including the Executive Board and Managing Directors. The rise by 111 employees or 24.4 % is primarily based on the increase in business volume.

Personnel expenses increased by 8.9 million euros or 16.7 % to 62.2 (previous year: 53.3) million euros in the business year 2017/2018.

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

KPS recorded a successful business year for the period 2017/2018. The Executive Board has a positive assessment of the economic situation and the future perspectives of the company. The revenues were once again improved by comparison with the previous years, with the sales forecast for the business year 2017/2018 being achieved.

The target of an EBIT between 16 and 20 million euros issued in the adjusted forecast for earnings on 29 May 2018 was also achieved.

An equity ratio of 46.5 % (previous year: 64.3 %) means that KPS remains positioned on a robust financial platform. The excellent financial base and the capital expenditure initiated in development services have created the enablers for an ongoing successful future.

We have been successfully implementing commerce solutions for our customers in the B2C and B2B sectors for 15 years using the SAP commerce platform, which was chosen as the market leading e-commerce solution by Gartner and Forrester in 2018.

Thomas Süß, Vice President KPS

3 OPPORTUNITIES AND RISK REPORT

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

On the basis of the order backlog currently in place and extending over a considerable period of time, KPS does not expect any negative impacts over the short term, taking the present economic situation into account. However, the possibility is not excluded that a sustained negative economic development could exert a negative impact on sales and income over the medium and long term.

3.1 Risk management targets and methods of the KPS Group

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

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

3.2 Individual opportunities and risks

3.2.1 Macroeconomic opportunities and risks

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

According to the most important economic research institutes in the German-speaking countries, the trading climate is becoming tougher. Protectionist threats are now being implemented in the USA and new tariff barriers can frequently only be prevented at the price of new non-tariff trade restrictions. Ongoing conflicts with China and the EU continue to present downside risks in this respect. Within Europe, the EU and the United Kingdom are in principle agreed that close relationships should be maintained in the future. The two sides are making efforts to implement a transition phase for negotiating detailed agreements. However, acceptance of the deal negotiated for the exit of the United Kingdom from the EU continues to be in the balance and presents a significant downside risk if there is a disorderly exit. Although the economies of emerging markets are in principle under threat as a result of investors retreating due to higher US interest rates, so far they have avoided a genuine crisis, with the exception of Turkey and Argentina, which have been under pressure for some time now.[10]

10 http://gemeinschaftsdiagnose.de/wp-content/uploads/2018/10/GD2_2018_final_20181002.pdf

Slower growth in Europe
At least in some countries, the financial policy in the eurozone continues to be slightly expansive, and Germany will again provide the engine of growth in 2019. The economy is growing in spite of declining external stimuli, and it continues to be primarily supported by domestic demand. The upswing in the eurozone is subject to a gradual slowdown, but a consensus forecast indicates that the broad upswing is expected to continue in Eastern Europe. An ongoing expansive financial policy and rising real wages driven by low unemployment will continue to deliver a robustly performing economy. Key risks for the development of the European economy will originate from a new debt crisis, if the Italian government implements its promises on a strongly expansive financial policy in full. The current high level of sovereign debt has already resulted in a significant risk mark-up on Italian government bonds and a marked increase in new debt could engender an additional loss of trust by the capital markets. If the solvency of the Italian state is seriously in doubt, the cohesion of the European Monetary Union could be at risk.[11] As explained in more detail under sub-section 3.2.3, additional risks result from the exit of the United Kingdom from the EU.

Germany under the influence of the global economy
Over the course of 2018, the downside risks for the German economy have increased. The burgeoning risks in the global economic environment exert a particularly significant impact on the German economy owing to the country's focus on export business. The joint forecast of the economic institutes does not assume that the Italian government will implement all the measures relating to financial policy they have announced. However, should this be the case, there is an increased risk of a more intense repetition of the euro crisis and this would exert significant effects on Germany. A disorderly exit by the United Kingdom from the European Union would also have a major impact on Germany as a nation geared to exports. A return to a more conventional monetary policy on the part of the European Central Bank would also result in slightly higher interest rates in Germany. However, according to the economic institutes, this effect would not be great enough to cause a significant deterioration in the financial conditions of the German economy.[12]

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

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

11 http://gemeinschaftsdiagnose.de/wp-content/uploads/2018/10/GD2_2018_final_20181002.pdf
12 http://gemeinschaftsdiagnose.de/wp-content/uploads/2018/10/GD2_2018_final_20181002.pdf

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

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

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

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

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

The exit of the United Kingdom from the EU (Brexit) continues to be a process where the outcome remains open. In particular, the political developments in the United Kingdom relating to the stability of the government and its ability to get a Brexit deal through Parliament (lower house) and at EU level in accordance with the unanimous consensus prevailing among all the EU governments on the negotiated divorce agreement are fundamental and cannot ultimately be guaranteed.[13]

An exit from the EU in March 2019 without a signed divorce agreement presents KPS AG with a variety of regulatory risks, since in such a case the United Kingdom would be classified as a foreign country outside the EU. KPS AG has a location in London through subsidiary companies, and one of three KPS Innovation Centers is based there. The transfer of employees between this location and other sites, and the import and export of services would then be subject to a different and more restrictive set of regulations.[14]

Since the date of acquisition in February 2018, Envoy Digital Ltd., London, has generated revenues of some 3.9 million euros and is therefore not of significant importance for the Group overall.

13 https://www.theguardian.com/politics/2018/nov/14/theresa-mays-draft-brexit-deal-what-is-it-and-what-happens-next
14 http://researchbriefings.files.parliament.uk/documents/CBP-8397/CBP-8397.pdf

However, the more probable scenario at present is one in which the divorce agreement negotiated in November is implemented[15] and the existing trade cooperation is initially continued[16]. In such a scenario, any changes to the statutory regulations on the economic relations between the United Kingdom and the 27 EU countries (those remaining in the EU after Brexit) would be negotiated over the coming years and gradually implemented. Although this would prolong the existing uncertainty surrounding the future regulations, it would prevent a hard Brexit in March 2019 and it would offer the opportunity of a cooperative relationship in the future.[17]

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

3.2.4 Opportunities and risks in order processing

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

Generally speaking, the planning and implementation of projects is highly involved and complex. Additional requirements from customers result in changes for the structure or workflow of the project. This entails a risk especially in contracts for services with fixed-price agreements. KPS does not believe that projects invoiced by working hours and resources represent a risk to the continuing existence of the company as a going concern since requirements for change lead to appropriate adjustments in the project budget.

The complexity of the projects and specifics in the sectors where the clients of KPS are operating can result in technical and/or qualitative problems that cannot be resolved by the team of employees assigned to the project.

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

3.2.5 Opportunities and risks arising from scale effects

The interest of large companies in the consulting services of KPS has continued to grow as a result of the current size of the company, continually rising annual sales of presently around 172.2 million euros, and a consistently growing, stable consulting team of 591 employees at the moment. The burgeoning appeal of KPS increases the opportunities of being engaged by major clients as a general contractor.

15 https://www.politico.eu/article/brexit-no-deal-amber-rudd-uk-parliament-will-block/
16 https://www.politico.eu/article/10-things-you-need-to-know-about-the-theresa-may-eu-brexit-deal/
17 https://www.theguardian.com/politics/2018/nov/14/brexit-deal-key-points-from-the-draft-withdrawal-agreement

The complexity of consulting initiatives and the corporate scale of its clients means that KPS can only operate with a limited number of major projects at any one time. The failure (insolvency) of one or several of these major clients therefore entails a risk to the continuing existence of the company as a going concern.

3.2.6 Personnel risk

Company knowledge is anchored in the human capital of KPS. The migration of qualified managers and consultants to competitor companies leads to loss of know-how and therefore presents a risk.

3.2.7 Opportunities and risks in investment and finance

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

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

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

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

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

3.2.8 Tax opportunities and risks

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

3.2.9 Technological opportunities and risks

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

3.2.10 Opportunities and risks arising from the holding function

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

3.3 Overall assessment of opportunities and risks

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

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

The accounting and controlling of the KPS Group operate on the basis of an accounting-based internal controlling and risk management system which guarantees the complete, correct, and prompt communication of information, and includes all Group companies. Our objective is to identify, minimize or completely avoid potential risks and negative developments at the earliest possible stage. These measures are intended to avert any losses and a potential risk to the existence of the KPS Group as a going concern.

Risks that result from processing orders are identified by controlling at an early stage. Any derivable impending risks are immediately notified to the responsible Vice Presidents and Managing Partners, and discussed in internal management meetings, and appropriate countermeasures are taken.

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

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

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

Recruiting highly qualified consultants is currently a major challenge in the digital consulting field. KPS was able to maintain its position as a very attractive employer in 2018. The acquisition of Envoy Digital has also further expanded the pool of consultants in this strategically important area, with over 200 experts now working at our hubs in Dortmund, London and Barcelona.

Uwe Grünewald, Founder and Chairman of KPS AG

4 OUTLOOK REPORT

4.1 Macroeconomic forecast

Global economy continues positive, trade conflicts put brake on expansion

The most important economic research institutes in German-speaking countries are expecting initially steady robust expansion of advanced economies for the years 2019 and 2020 on the basis of an environment of ongoing expansive monetary and financial policies at least into the year 2019. Growth in 2019 is likely to be 3.0 %, whereas 2.9 % is expected for 2020. This corresponds to a projected reduction of 0.1 percentage points in each case by comparison with the spring expert report.[18]

According to the joint forecast, the pace of growth for gross domestic product is expected to slow down in the USA, Japan and the United Kingdom in 2019 and 2020. This is only partly due to cyclical effects, since key influences are also expected from trade conflicts. However, negative effects in Japan will be mitigated due to additional investments in connection with the 2020 Olympic Games. The economy of the United Kingdom will also be negatively impacted by weak investment activity on the part of companies. The reason for this is the uncertainty associated with Brexit. Overall, the economies in emerging markets will be placed under a certain amount of pressure by rising interest rates in the USA. This will impact in particular on Turkey and Argentina, but Russia and Brazil are also witnessing increased investment outflows.[19]

Nevertheless, the economic research institutes making the joint forecast also expect a decline in economic expansion in the Asian region as a result of the structural change in the Chinese economy during the period covered by the forecast. While the trade conflict with the USA has not yet generated any tangible effects on growth, the sentiment on stock exchanges and with consumers is depressed. The Chinese government has already adjusted to potential impacts by implementing supportive monetary and financial measures.[20]

Eurozone with slower growth and lower unemployment rate

In the eurozone, the limits to capacity growth and the uncertainties prevailing in global trade are likely to be associated with slightly lower growth rates for the years 2019 and 2020. The sustained high employment rates and the upwardly dynamic wage development are combining with financial policy to generate additional growth impulses. The growth forecast for 2019 (1.8 %) and 2020 (1.6 %) will continue to be powered primarily by the domestic economy and will exceed the growth in production potential. This will entail a further widening of the positive production gap.[21]

The forecast predicts that the ongoing economic recovery should also be reflected in a further improvement in the employment market situation. In 2019, the unemployment rate is projected to fall to 7.8 % on average, with 7.5 % being forecast for 2020. Since energy and food prices are not likely to rise significantly, the institutes producing the joint forecast are anticipating a fall in the inflation rate to 1.8 % in each of the years 2019 and 2020.[22]

18 http://gemeinschaftsdiagnose.de/wp-content/uploads/2018/10/GD2_2018_final_20181002.pdf
19 http://gemeinschaftsdiagnose.de/wp-content/uploads/2018/10/GD2_2018_final_20181002.pdf
20 http://gemeinschaftsdiagnose.de/wp-content/uploads/2018/10/GD2_2018_final_20181002.pdf
21 http://gemeinschaftsdiagnose.de/wp-content/uploads/2018/10/GD2_2018_final_20181002.pdf
22 http://gemeinschaftsdiagnose.de/wp-content/uploads/2018/10/GD2_2018_final_20181002.pdf

Growth in Germany rests on the domestic economy

In the opinion of the most important economic institutes in German-speaking countries, the pace of expansion for the economy in Germany will only ease slightly. According to their forecast, gross domestic product is projected to increase by 1.9 % in 2019 and by 1.8 % in 2020. However, the growth in this forecast for 2020 somewhat overstates the dynamic economic performance owing to a high number of working days, and performance overall will slow down. Since gross domestic product will continue to undergo a slightly greater rise than the production potential, the level of utilization of the macroeconomic capacities is likely to increase further.[23]

The upswing will primarily be driven by the domestic economy, and in particular private consumption stimulated by rising wages and a policy of giving consumers tax breaks. The momentum generated by foreign trade will ease on account of the gradual weakening in the global economy.[24]

In the view of the economic researchers, the position on the German employment market will remain fraught, and increasing participation in the employment market and immigration are less and less likely to provide mitigation for the decline in the labor force potential. The number of people with gainful employment is projected to increase rather more slowly by 421,000 in 2019 and 310,000 in 2020. Meanwhile, the unemployment rate in Germany is expected to fall consistently, irrespective of the increasing number of people in the labor market. The unemployment rate is projected to be 4.8 % in 2019 and 4.5 % in 2020. 2019 will also witness rising wage costs that will entail an increase in consumer prices of 2.0 %, while a rise of 1.9 % is expected for 2020.[25]

4.2 Sector-specific forecast

Enormous need for digital transformation of the value chain

Over the winter half-year 2018/2019, 37 % of management consultants in Germany are expecting a further improvement in business prospects. Only 9 % are anticipating a more unfavorable development. Management and personnel consultants are particularly optimistic about the situation following the business climate survey carried out by the Federal Association of German Management Consultants (BDU) during the third quarter of 2018.[26] The sustained need for project support and outsourcing is also leading to optimistic outlooks in the IT service sector. IT consulting and system integration companies, in particular, are benefiting from this development with a focus on project business. IT consulting companies are expecting sales growth of 23 % in 2019.[27]

The focus here continues to be on improving the “Customer Experience” with the assistance of digital interaction channels. The aim is to enhance customer satisfaction and customer loyalty. This applies in particular to sectors such as retail and energy suppliers where customer loyalty is declining while digitalization is especially far advanced. Contrary to the previous situation, the vast majority of companies (87 %) are planning to implement digitalization of customer interfaces across their businesses and thereby avoid the tendency to work in silos.[28]

23 http://gemeinschaftsdiagnose.de/wp-content/uploads/2018/10/GD2_2018_final_20181002.pdf
24 http://gemeinschaftsdiagnose.de/wp-content/uploads/2018/10/GD2_2018_final_20181002.pdf
25 http://gemeinschaftsdiagnose.de/wp-content/uploads/2018/10/GD2_2018_final_20181002.pdf
26 https://www.bdu.de/media/352646/geschaeftsklimabefragung_2q2018.pdf
27 Lünendonk Market Segment Study: The Market for Customer Experience Services in Germany (“Der Markt für Customer Experience Services in Deutschland”) p. 34
28 Lünendonk Market Segment Study: The Market for Customer Experience Services in Germany (“Der Markt für Customer Experience Services in Deutschland”) p. 18

“Flexibility and trust are not empty phrases, but lived values. That‘s how working is fun.”

Dirk Brambring
Senior Manager, Dortmund

“Our team is particularly strong in the digital field. I‘mproud to be part of it.”

Peter Kozyra
Manager, Dortmund

"At KPS I have the support, flexibility and thrust, that I need to get to the to be successful in sales. Combined with our top-quality consultants and the leading SAP solutions are the possibilities boundless."

Martin Pedersen
Head of SAP Concur Competence Center, Copenhagen

"We use the innovation potential of the emerging technologies for our customers. With our Innovation Centers, we are perfectly positioned here."

Héctor Martínez Fernández
Partner KPS, Barcelona

"I work for KPS Denmark. Our projects are very different in size and scope. This makes our work very interesting and challenging. We have a great team here."

Ida Lønstrup
Senior Solution Architect, Copenhagen

Digital business models and strategies

Many companies are having to carry out a wide variety of adjustments in order to implement customer-centric digital strategies. The driver is provided by using mobile end devices in all areas of life. Customers expect to be able to use digital and cross-channel process chains. In the past, this has already facilitated disruption in various sectors by start-ups which introduced integrated digital solutions from Spotify to FlixBus. Two thirds of managers in large companies are already perceiving an increase in the market power of their customers through digitalization, and a further 15 % partly concur with this view. This environment does not make it easy for a lot of companies to implement digitalization programs because organizational structures and corporate culture frequently present significant obstacles. According to the Lünendonk Study, approximately 2.3 % of the sales in digitalization projects were invested along the customer interface during the past year and 3.3 % are forecast for 2019.[29]

Furthermore, many consultancy companies are also investing in the digitalization of their own businesses. Software-based consulting packages are becoming increasingly important in this area and the focus continues to be on the sphere of data analysis.[30] Even if the potential of digital consulting solutions has not yet been fully exploited and is significantly dependent on company size, customer sector and project situation, a significant trend is emerging here in the direction of making use of digital consulting technologies.[31]

Economy permits IT investments

The good macroeconomic situation is allowing companies to continue investing in digitalization topics. Ongoing robust customer demand is additionally creating an environment in which a majority of consultancy companies feel able to push through price increases after a period of price stagnation and thereby mitigate the rising wage costs in the sector.[32]

Digital transformation is also a challenge for consultancy companies

Agile methods such as the KPS Rapid-Transformation® Method as the unique selling proposition of KPS have now become the preferred route for implementation of transformation projects. A top priority for the customers of consultancy companies is not simply sector competence but also agile methods (77 %), innovative capability (94 %) and the development of prototypes for digital solutions (71 %). Customers expect high-quality digital packages that reflect the entire "Customer Experience" seamlessly across a number of channels. This is coupled with the trend for customers to increasingly put implementation of digitalization strategies out to tender as complete projects or to process all sub-projects with the same service partner.[33]

4.3 Forecast for the KPS Group

Comprehensive investments are envisaged in the area of human-resource expansion and development with the aim of increasing sales. In terms of cost structures, KPS is anticipating further improvements and productivity increases as a result of internal digitalization projects within the company. Our assessment for the business year 2018/2019 results from a number of factors including the

29 Lünendonk Market Segment Study: The Market for Customer Experience Services in Germany ("Der Markt für Customer Experience Services in Deutschland")

30 https://luenendonk.de/pressefeed/luenendonk-studie-2018-managementberatung-in-deutschland

31 https://www.bdu.de/newsletter/ausgabe-32018/die-bedeutung-digitaler-beratungsangebote-waechst-auch-fuer-kleinere-consultingfirmen/

32 https://luenendonk.de/pressefeed/luenendonk-studie-2018-managementberatung-in-deutschland

33 Lünendonk Market Segment Study: The Market for Customer Experience Services in Germany ("Der Markt für Customer Experience Services in Deutschland") p.26

positive development of past reporting periods, the results of recent months, and the excellent consulting portfolio for the focus sectors of KPS in retail and the consumer goods industry.

The Executive Board and the management at KPS AG have an extremely positive overall assessment of the situation. We are in a good position to address the challenges of the future. In addition, KPS has a very sound financial structure and sound results of operations. As well as increasing sales, this business year sees us intending to consistently concentrate on optimizing income and completing integration of the new subsidiary companies.

When making plans for the business year 2018/2019, the Executive Board is continuing to assume stable growth. KPS made a successful start to the new business year 2018/2019. During the first quarter, our sales and orders booked have developed in line with expectations. The Executive Board is anticipating a slight increase in sales within a projected range of 170 – 180 million euros, and a significant increase in EBITDA of 22 – 27 million euros for the current business year.

On the basis of the status quo, the Executive Board is assuming that sales and earnings will develop according to the current forecast for the business year 2018/2019. When this report was published, the current business development was in line with the expectations expressed in the key financial indicators.

Our forecast is based on factors and projections about future business and economic developments known to us today. If major changes occur in business developments and framework conditions which cannot be predicted from the current perspective, there is an underlying risk that the projected sales and earnings targets may not be achieved.

5 COMPENSATION REPORT

5.1 Compensation payments to the Executive Board

The compensation is made up of fixed and variable components. A defined annual salary payment is agreed in the form of fixed elements, and these are payable in twelve equal monthly instalments at the end of each month. The variable component is linked with a performance-related bonus payment based on sustainable company development which is calculated over a measurement period totaling three years (the relevant starting year and the two subsequent years). The payout of the bonus depends on the attainment of fixed targets defined in the starting year. For each year of the measurement period, different bandwidths are defined for quantitative and as necessary qualitative criteria, for each of which there is a corresponding bonus or penalty amount. After each of these business years in the relevant measurement period has come to an end, the Member of the Executive Board shall receive an annual advance payment. The amount of this payment depends on the balance of the bonus or penalty amounts that have been achieved up to that date. After the final bonus has been established, the Member of the Executive Board shall repay to the company any difference between the advance payments and the bonus ultimately determined. The fixed and variable compensation paid to the sole Member of the Executive Board for his activity in the business year 2017/2018 amounted to a total of 572 (previous year: 1,028) KEuros, with the variable share amounting to 42 % (previous year: 47 %) of the total payments.

The Member of the Executive Board is also provided with a vehicle for official and private use. The company has further concluded an accident insurance and a D&O insurance policy for the Member of the Executive Board. The contributions for statutory health insurance made by the Member of the Executive Board are also reimbursed to him and he is entitled to payment of the usual employer's share for statutory pension insurance that is applicable when employing an employee. The expenses for this amounted to 59 KEuros in the business year 2017/2018.

5.2 Compensation payments to Members of the Supervisory Board

A resolution defining the current compensation structure of the Supervisory Board was approved at the Annual General Meeting held on 9 May 2008. According to this structure, each member of the Supervisory Board receives fixed compensation amounting to 15 KEuros in addition to reimbursement of their expenses after the business year has come to an end. The Chairman of the Supervisory Board receives 25 KEuros. The compensation is payable after the Annual General Meeting. In the business year 2017/2018, the compensation for the Supervisory Board amounted to a total of 55 (previous year: 55) KEuros. In the business year 2017/2018, the compensation payments for the Chairman of the Supervisory Board, Mr. Michael Tsifidaris, amounted to 25 (previous year: 25) KEuros, for Mr. Uwe Grünewald 15 (previous year: 15) KEuros and for Mr. Hans-Werner Hartmann 15 (previous year: 15) KEuros.

6 DISCLOSURES RELEVANT TO TAKEOVERS PURSUANT TO ARTICLE 315 SECTION 4 GERMAN COMMERCIAL CODE (HGB) AND THE EXPLANATORY REPORT FOR THE BUSINESS YEAR 2017/2018

6.1 Composition of the subscribed capital

On 30 September 2018, the capital stock of the company amounted to 37,412,100 euros. It is divided up into 37,412,100 no-par value ordinary shares each representing a nominal value of 1 euro in the capital stock. All shares entail the same rights and obligations.

During the year under review, the company did not acquire any of the company's own shares. In December 2017, the company disposed of 133,365 treasury shares as a partial payment in the context of a company acquisition. On the balance sheet date of 30 September 2018, the company therefore did not hold any treasury shares (previous year: 133,365).

6.2 Restricitons on voting rights and transfers

The Executive Board is not aware of any agreements between shareholders which could give rise to restrictions on voting rights or restrictions on the transfer of shares. There are no such restrictions arising from statutory legislation or from the statutes of the company, insofar as the regulation defined in Article 44 Section 1 Securities Trading Law (WpHG) is not applicable Any breaches of the notification obligations pursuant to Articles 33 Section 1, 38 Section 1 and 39 Section 1 Securities Trading Law (WpHG) can lead to rights arising from shares and also the voting right pursuant to Articles 44 Securities Trading Law (WpHG) being suspended at least temporarily. We are not aware of any contractual restrictions of the voting rights.

6.3 Capital shares greater than 10 %

Direct or indirect shareholdings in the capital of the company which exceed 10 % of the voting rights were held as follows according to the knowledge of the Executive Board as at 30 September 2018:

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

In the business year 2017/2018, KPS AG did not receive any further notifications relating to direct or indirect shareholdings which exceed 10 % of the voting rights. Additionally, the company has not therefore received any notification apart from the above list providing information about a shareholding above 10 % of the voting rights.

6.4 Special rights which confer rights of control

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

6.5 Control of voting rights through employee shareholders

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

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

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

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

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

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

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

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

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

KPS AG was authorized by a resolution passed by the ordinary Annual General Meeting on 27 March 2015 to acquire its own shares until 26 March 2020 (inclusive) up to a total of 10 % of the capital stock on the date of the adoption of the resolution or – if this value is less – on the date of the authorization to exercise this right. The authorization can be exercised by the company in whole or in parts, once or more than once, in pursuit of any purpose permissible under statutory regulations. The acquisition of shares by KPS AG can be executed as a purchase on the stock exchange, by means of a public offer to purchase made to all shareholders and/or by issue of a call for bids. Acquired own shares may be disposed of again without the need for a further resolution to be passed by the Annual General Meeting, or can be used to meet or discharge purchase obligations or purchase rights to shares in KPS AG. The pre-emptive rights of shareholders to acquire own shares is excluded in the case of certain authorizations of use in accordance with the resolution passed by the Annual General Meeting or can be excluded by the Executive Board in the cases specifically designated in the resolution of the Annual General Meeting. On the balance sheet date 30 September 2018, the company did not hold any treasury shares (previous year: 133,365).

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

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

7 LEGAL DISCLOSURES

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

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

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

The Executive Board and the Supervisory Board of KPS AG submitted the declaration required pursuant to Article 161 of the Stock Corporation Law and published the declaration on the website of the company at https://www.kps.com/en/investor-relations/corporate-governance.html on 21 January 2019.

“We are the leading consulting partner for SAP cloud solutions on the Scandinavian market. This market segment is exploding.”

Claus Hornbæk Nielsen
Partner, Copenhagen

“The UK team is growing very strongly. Not only do we have highly qualified consultants, but we also have the right tools and processes so that we are very efficient in project management for our clients.”

Tim Hillmann
Partner, London

“Best quality for the customer is our ambition. Flexibility and trust are not just empty phrases, but lived values.”

Gregers Terp
Senior SAP Developer, Copenhagen

“Great atmosphere, mutual trust, space and potential to develop further. I found my dream job at KPS.”

Yan Shen
Senior Quality Manager, Dortmund

“In such a fast-growing company, there are always new tasks and challenges, you never stand still.”

Christian Drechsel
Finance Department, Munich

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KPS GROUP
BUSINESS FIGURES

KPS AG Consolidated Financial Statements in accordance with IFRS

INCOME STATEMENT
1 October 2017 to 30 September 2018

	in KEuros	Note	2017/2018	2016/2017
1	Revenues	6.1	172,223	160,297
2	Own work capitalized	6.2	2,832	5,141
3	Other operating income	6.3	3,233	2,820
4	Cost of materials	6.4	-68,489	-67,574
5	Personnel expenses	6.5	-62,187	-53,270
6	Other operating expenses	6.6	-27,589	-21,002
7	**Operating result before depreciation and amortization (EBITDA)**		20,023	26,412
8	Depreciation and amortization (M&A adjusted)*	6.7	-849	-814
9	**Operating result (EBIT) adjusted***		19,174	25,598
10	Depreciation and amortization (M&A related)	6.7	-2,581	-843
11	**Operating result (EBIT)**		16,593	24,755
12	Financial income	6.8	13	1,215
13	Financial expenses	6.8	-1,339	-134
14	**Financial result**		-1,326	1,081
15	**Income before income taxes ****		15,267	25,836
16	Income tax	6.9	-5,436	-6,037
17	**Earnings after incomes taxes**		9,831	19,799
	Number of shares in thousands – basic/diluted weighted average		37,371	37,279
in Euro				
	Earnings per share			
	– basic	6.10	0.26	0.53
	– diluted	6.10	0.26	0.53

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

KPS AG Consolidated Financial Statements in accordance with IFRS

COMPREHENSIVE INCOME STATEMENT
for the period from 1 October 2017 to 30 September 2018

in KEuros	Note	2017/2018	2016/2017
Earnings after income taxes		9,831	19,799
Actuarial gains and losses arising from defined benefit pension commitments and similar obligations	6.11	169	297
Foreign currency translation adjustment for foreign subsidiary companies	6.11	51	0
Financial result		10,051	20,096

INDICATORS FOR THE INCOME STATEMENT

in million euros	2017/2018	2016/2017
Revenues	172.2	160.3
EBITDA	20.0	26.4
EBITDA margin	11.6 %	16.5 %
EBIT	16.6	24.8
EBIT margin	9.6 %	15.4 %

KPS AG Consolidated Financial Statements in accordance with IFRS

GROUP BALANCE SHEET
as at 30 September 2018

ASSETS

in KEuros		Note	30.09.2018	30.09.2017
ASSETS				
A.	**NON-CURRENT ASSETS**			
I.	Property, plant and equipment	7.1	1,023	994
II.	Goodwill	7.2	62,546	32,227
III.	Other intangible assets	7.2	16,190	10,063
IV.	Deferred tax assets	7.3	5,488	8,626
			85,247	51,910
B.	**CURRENT ASSETS**			
I.	Future receivables from production orders	7.4	2,282	5,442
II.	Trade receivables	7.5	41,667	37,450
III.	Other receivables and financial assets	7.6	1,342	1,344
IV.	Entitlements to income tax rebates	7.7	245	72
V.	Cash and cash equivalents	7.8	9,084	6,665
			54,620	50,973
	Total assets		139,867	102,883

LIABILITIES AND SHAREHOLDERS' EQUITY

in KEuros	Note	30.09.2018	30.09.2017
A. SHAREHOLDERS' EQUITY			
Share in equity attributable to shareholders of KPS AG			
I. Subscribed capital	7.9.1	37,412	37,291
II. Capital reserve	7.9.3	-10,222	-11,595
III. Retained earnings	7.9.4	663	663
IV. Other comprehensive income	7.9.5	-427	-647
V. Net profit	7.9.6	37,654	40,476
Total equity		65,080	66,188
LIABILITIES			
B. NON-CURRENT LIABILITIES			
I. Non-current provisions	7.10	3,094	2,420
II. Other non-current liabilities	7.10.1	10,252	538
III. Non-current financial liabilities	7.10.2	12,400	0
IV. Deferred tax liabilities	7.11	2,214	1,686
		27,960	4,644
C. CURRENT LIABILITIES			
I. Trade liabilities	7.12	10,911	11,475
II. Financial liabilities	7.13	8,800	0
III. Advance payments received	7.14	2,081	1,540
IV. Tax provisions	7.15	2,364	1,872
V. Other provisions	7.16	9,694	9,555
VI. Other liabilities	7.17	12,534	6,821
VII. Income tax liabilities	7.18	443	788
		46,827	32,051
Total liabilities		74,787	36,695
Total shareholders' equity and liabilities		139,867	102,833
Equity ratio		46.5 %	64.3 %

KPS AG Consolidated Cash Flow Statement in accordance with IFRS

CONSOLIDATED CASH FLOW STATEMENT IN ACCORDANCE WITH IFRS
for the period from 1 October 2017 to 30 September 2018

	in KEuros	2017/2018	2016/2017
A.	**Current business operations**		
	Earnings before interest and income taxes (EBIT)	16,593	24,755
	Depreciation of fixed assets	3,430	1,657
	Change in current assets	3,519	-6,420
	Change in provisions	-4,927	-364
	Other non-cash expenses and income	949	-762
	Changes in other liabilities	2,409	783
	Taxes paid	-4,154	-2,870
	Interest received	28	8
	Cash inflow from current business operations	17,847	16,787
B.	**Investment activities**		
	Investments in property, plant and equipment	-56	-161
	Investments in intangible assets	-3,364	-5,802
	Investments in acquisition of getit GmbH	-448	-1,555
	Investments in acquisition of Saphira	0	-4,877
	Investments in acquisition of ICE	-10,354	0
	Investments in acquisition of Infront	-4,643	0
	Investments in acquisition of Envoy	-6,017	0
	Cash receipts from sale of assets	0	2
	Cash outflow from investment activities	-24,882	-12,393
C.	**Financial activities**		
	Interest paid	-315	-39
	Cash receipts from taking out loans	20,000	0
	Payments for the settlement of loans	-3,800	0
	Dividend payouts	-13,094	-12,302
	Cash outflow from financial activities	2,791	-12,341
D.	**Net change in cash funds**	**-4,244**	**-7,947**
E.	**Cash funds at the beginning of the period**	**6,665**	**12,606**
F.	**Consolidation-related change in cash funds**	**1,663**	**2,006**
G.	**Cash funds at the end of the period**	**4,084**	**6,665**

COMPOSITION OF CASH FUNDS

in KEuros	Balance 30.09.2018	Balance 30.09.2017
Cash in hand and bank balances	9,084	6,665
Bank liabilities with a term of up to three months	-5,000	0
Cash funds	4,084	6,665

KPS AG Consolidated Cash Flow Statement as at 30 September 2018

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT KPS – IFRS

in KEuros	Subscribed capital	Treasury shares	Total subscribed capital
30.09.2016	37,412	-121	37,291
Equity transactions with shareholders			
Dividend payout	0	0	0
Equity transactions with shareholders	0	0	0
Group earnings	0	0	0
30.09.2017	37,412	-121	37,291
Disposal of treasury shares	0	121	121
Equity transactions with shareholders			
Dividend payouts	0	0	0
Equity transactions with shareholders	0	0	0
Group earnings	0	0	0
30.09.2018	37,412	0	37,412

		ACCUMULATED OTHER EQUITY			
Capital reserve	**Retained earnings OCI**	**Currency translation diffe-rences**	**Pension commitments**	**Net profit**	**Equity**
-11,595	663	0	-944	32,979	58,394
0	0	0	0	-12,302	-12,302
0	0	0	297	0	297
0	0	0	0	19,799	19,799
-11,595	663	0	-647	40,476	66,188
1.373	0	0	0	441	1,935
0	0	0	0	-13,094	-13,094
0	0	51	169	0	220
0	0	0	0	9,831	9,831
-10,222	663	51	-478	37,654	65,080

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KPS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The consolidated financial statements of KPS AG for the period to 30 September 2018 were prepared in accordance with the regulations of the International Financial Reporting Standards (IFRS) valid on the balance sheet date and endorsed by the European Union as issued by the international Accounting Standards Board (IASB), London, the interpretations of the IFRS Interpretations Committee (IFRIC) and observing the additional applicable commercial regulations established in sections Article 315e German Commercial Code (HGB) and the company statutes of KPS AG.

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

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

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

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

The Executive Board of KPS AG prepared the consolidated financial statements on 23 January 2019 and submitted them to the Supervisory Board, which passed a resolution on them on 24 January 2019.

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

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

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

The consolidated financial statements are prepared in euros. Unless otherwise noted, all amounts are given in thousand euros (KEuros). Roundings may lead to values in this report not adding up exactly to the specified sum and percentages given may not conform precisely to the values presented. Alongside the values for the business year 2017/2018, the equivalent year-earlier figures are given for purposes of comparison. These are presented in brackets.

The presentation is unchanged by comparison with the previous year.

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

2 EFFECTS OF NEW ACCOUNTING STANDARDS

2.1 First-time application – if relevant –

2.1.1 IAS 12

In January 2016, the IASB adopted amendments to IAS 12. The IASB clarifies issues relating to the recognition of deferred tax claims for unrealized losses with this amendment. The amendments should be applied to business years which begin on or after 1 January 2017; early application is permissible. The EU endorsement was enacted in November 2017. The amendments have no material effects on the consolidated financial statements of KPS AG.

2.1.2 IAS 7

In January 2016, the IASB adopted amendments to IAS 7. The amendments are intended to provide clarification for IAS 7 and to improve information made available to the users of the financial statements in relation to the financial activities of a company. The amendments should be applied to business years which begin on or after 1 January 2017; early application is permissible. The EU endorsement was enacted in November 2017. KPS AG amended the corresponding disclosures.

2.2 IFRS Standards not applied

KPS AG did not voluntarily apply the following newly issued or revised IASB standards or interpretations, which did not have to be mandatorily applied in these financial statements; they have not yet been adopted by the EU:

2.2.1 IFRS 9 – Financial Instruments:

In July 2014, the IASB completed its project to replace IAS 39, Financial Instruments: Recognition and Measurement, by publication of the final version of IFRS 9, Financial Instruments. IFRS 9 introduces a uniform approach to classification and valuation of financial assets. The categorization used by the standard is based on the contractual payment flows and the business model according to which they are managed. Furthermore, the standard provides for a new impairment model which is based on the expected credit defaults. IFRS 9 also includes new rules for the application of hedge accounting, in order to provide a better presentation of the risk management activities of a company, in particular with respect to the management of non-financial risks. The new standard should be applied to business years which begin on or after 1 January 2018; early application is permissible. The EU endorsement was enacted in November 2016. KPS AG will apply IFRS 9 for the first time beginning on 1 October 2018. Pursuant to the simplification options, comparative information for previous accounting periods relating to the classification and valuation, and impairment is not presented. The transition effects are recognized in retained earnings.

In order to implement the new regulations on impairments, an appropriate model was developed with particular emphasis on the calculation of expected default rates for trade receivables. KPS AG will apply the simplified impairment model of IFRS 9 and recognize the losses expected over the entire term arising from trade receivables and active contractual positions. The recognition of expected losses in accordance with the new allowance model yields an allowance amounting to 477 KEuros on 30 September 2018.

2.2.2 IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB published IFRS 15 "Revenue from Contracts with Customers". According to the new standard, the recognition of revenues should reflect the transfer of the promised goods or services to customers with the amount corresponding to that consideration which the company is likely to receive in exchange for these goods or services. Revenues are realized when the customer receives the power of disposal over the goods or services. Furthermore, IFRS 15 includes regulations for recognition of the surplus funds or obligations existing at contract level. These are assets and liabilities arising from customer contracts which come into being depending on the relationship between the service provided by the company and the payment made by the customer. Furthermore, the new standard requires disclosure of significant amounts of quantitative and qualitative information so as to place the user of the consolidated financial statements in a position to understand the type, the nature, the due date and the uncertainty of revenues and payment flows arising from contracts with customers. IFRS 15 replaces IAS 11, Construction Contracts, and IAS 18, Revenues, and the associated interpretations. The standard should be applied to business years which begin on or after 1 January 2018; early application is permissible. The EU endorsement was enacted in September 2016. In April 2016, a number of interpretations for IFRS 15 were published which primarily relate to the identification of separate payment obligations and the distinction between principal and agent. The EU endorsement of the amendments was enacted in October 2017. KPS AG has not made use of the option of early first-time application of IFRS 15 but will apply IFRS 15 for the first time in the business year commencing on 1 October 2018 (IFRS 15 conversion year). The first-time application will be in accordance with the modified retrospective method, i.e. any conversion effects will be recognized directly accumulated in retained earnings at the beginning of the comparison period on 1 October 2018. KPS AG has reviewed the effects on the consolidated financial statements. The investigations carried out to date confirm that there will be no material effects on the consolidated financial statements of KPS AG. The retained earnings as at 1 October 2018 will not undergo change. There were no changes in the total amount of the revenues recognized for a customer contract in the business year 2016/2017 (as the comparable previous year period). All production orders that are currently reported in accordance with the percentage of completion method meet the requirements for a time-related realization of revenues.

2.2.3 IFRS 16 – Leasing

In January 2016, the IASB published IFRS 16 Leasing. IFRS 16 discontinues the previous classification of leasing agreements on the lessee side in operating and finance leasing relationships. Instead, IFRS 16 introduces a uniform lessee reporting model. This requires lessees to recognize assets (for right of use) and leasing liabilities for leasing agreements with a term of more than twelve months. This means that leasing agreements not previously reported – primarily comparable with the reporting today of finance leasing relationships – will have to be reported in balance sheets in future. IFRS 16 should be applied for business years which begin on or after 1 January 2019; early application is permissible, if IFRS 15 is already being applied. The EU endorsement was enacted in October 2017. KPS AG has not made use of the option of early first-time application of IFRS 16 but will apply IFRS 16 for the first time in the business year commencing on 1 October 2019. KPS AG is currently reviewing what effects the application of IFRS 16 will have on the consolidated financial statements of KPS AG. KPS AG primarily concludes leasing agreements as an operating lessee. Application of IFRS 16 creates the following effects on the presentation of the asset situation, financial position and results of operations of the Group: In relation to the minimum rental payments from operating leases recognized under other financial obligations, first-time application of the standard will result in an increase in non-current assets as a result of the reporting of rights of use. Accordingly, financial liabilities will increase as a result of the recognition of the corresponding liabilities. The nature of expenses from these leasing relationships will also change, since IFRS 16 replaces the previous straightline expenses for operating leases by amortization of the rights of use and the interest expenses for liabilities. Furthermore, according to IFRS 16, the settlement portion of the leasing payments should be shown as a component of cash flow from financial activities so that the operating cash flow will improve. The quantitative effects on the consolidated financial statements cannot be reliably ascertained. The current operating lease volume is presented in the notes to the consolidated financial statements.

3 PRINCIPLES AND METHODS, AND UNCERTAINTIES ON ACCOUNT OF ESTIMATES

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

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

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

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

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

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

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

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

3.1 Consolidation

The consolidated financial statements are based on the annual financial statements of the consolidated companies prepared on 30 September 2018 in accordance with the accounting and valuation principles applied uniformly across the Group. The annual financial statements have been audited and approved or they were subject to an audit review in the course of the audit of the consolidated financial statements.

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

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

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

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

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

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

3.2 Currency translation

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

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

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

		Average rate on the balance sheet date		Annual average rate	
		30.09.2018	**30.09.2017**	**2017/2018**	**2016/2017**
Denmark	DKK	7.4564	7.4423	7.4484	7.4375
Switzerland	CHF	1.1316	1.1457	1.1614	1.0909
United Kingdom	GBP	0.8873	0.8818	0.8849	0.8722
USA	US-$	1.1576	1.1806	1.1900	1.1046

Source: Zeitreihen Deutsche Bundesbank

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

3.3 Revenues or other operating income

All income connected with product sales, services provided, and license earnings are recorded as revenues, if a price has been agreed or can be determined, and payment of the price is probable. Any miscellaneous operating income is recognized as other operating income. Revenues are recognized as income, if the significant risks and opportunities arising out of ownership in the goods has been transferred to the customer, the company neither has any other right of disposal as is usually associated with ownership nor is there an effective power of disposal over the sold goods and manufactured products, the amount of the income and the incurred costs or costs still to be incurred can be reliably determined, and there is a sufficient probability that the company will derive economic benefit out of the business.

Revenues are recognized at the fair value of the consideration received or to be received after deduction of sales tax and other taxes, and after deduction of revenue reductions. Furthermore, estimated amounts for rebate, discount and product returns are also recognized and set aside at the point when sales are realized.

In the case of customer-based fixed-price orders, the sales are recognized on the basis of the Percentage of Completion Method (method of recognizing the profit in accordance with the progress of performance). This is done in accordance with the ratio of the costs already incurred to the estimated total costs of the order. Any expected loss from the fixed-price order is immediately posted under expenses.

Estimates relating to revenue reductions are mainly based on experiences from the past, specific contractual conditions, and expectations relating to future sales development. It is unlikely that any factors other than those listed will exert a major effect on revenue reductions of the KPS Group. Adjustments of the provisions formed in previous periods for rebates, discounts and product returns were of subordinate importance for the earnings before tax of the business years under review.

Provisions for bonuses amounted to 63 (previous year 1,287) KEuros in the business year 2017/2018.

Part of the revenues in the KPS Group is generated from license agreements in which third-party rights in some products and technologies were transferred. Any payments received or expected which are related to the sale or sublicensing of technology or technology knowledge affect earnings, as soon as the corresponding agreements come into force, if all rights and obligations in relation to the technologies concerned are given up under contractual terms and conditions. On the other hand, if rights continue to be vested in the technology or if obligations arising from the contractual relationship still have to be fulfilled any payments received are recorded accordingly.

Contractually agreed advance payments and other similar non-refundable payments are recognized as received advance payments under liabilities and are released over the estimated period of provision of the agreed consideration and recognized under income as affecting earnings.

3.4 Research and development expenses

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

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

During the course of the business year, development costs which meet the criteria defined in IAS 38.57 were capitalized in the amount of 2,832 (previous year: 5,141) KEuros. Development costs are recognized with the manufacturing costs. The developments capitalized in the business year had only been partly produced on the balance sheet date, the amortization booked for the business year amounted to 363 (previous year: 203) KEuros.

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

3.5 Goodwill

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

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

3.6 Other intangible assets

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

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

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

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

3.7 Property, plant and equipment

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

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

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

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

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

	Years
IT hardware	3 - 5
Business equipment	3 - 10

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

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

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

3.8 Leasing

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

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

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

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

3.9 Cash and cash equivalents

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

3.10 Financial instruments

A financial instrument is a contract, which simultaneously leads to the creation of a financial asset in one company and to a financial liability or equity instrument in another company. These include on the one hand original financial instruments and on the other hand derivative financial instruments. The original financial instruments of the KPS Group are recognized under other non-current financial assets, trade receivables, other current receivables/assets, liquid funds, non-current and current liabilities, and are explained appropriately. Derivative financial instruments (with and without hedging relationships) are allocated to other current receivables/assets or to other current liabilities.

Financial instruments are first recorded on the settlement date. When financial instruments are recognized for the first time, they are valued at the fair value. The transaction costs attributable to the acquisition are taken into account for all financial assets and liabilities which are not recognized in the income statement at fair value in subsequent periods.

The financial assets should be allocated to one of the following valuation categories in accordance with IAS 39.9 for the subsequent valuation: financial investments held to the maturity date, loans and receivables granted, financial assets available for sale or financial assets held for trading purposes. The KPS Group does not make use of the option to classify financial assets as “financial assets valued at fair value through profit or loss”.

Derivative financial instruments for which there is a hedging relationship pursuant to IAS 39 do not belong to any of the valuation categories for financial assets or liabilities. Derivatives without a hedging relationship are classified with the financial assets or liabilities held for trading purposes. They are recognized for the first time at their fair value on the date the contract is concluded and are then valued at the fair value on each reporting date. The gain or loss resulting from the valuation is immediately recognized in the income statement, unless the derivative is designated and effective as a hedging instrument in the context of a hedging relationship (hedge accounting).

Loans and receivables granted are non-derivative financial assets with fixed or determinable payments, which are not listed on an active market. They include e.g. trade receivables, other receivables, bank credits and cash. See below for subsequent valuation.

Financial assets, with the exception of financial assets valued at fair value in the income statement, are reviewed on each balance sheet date for potential impairment indicators. Financial assets are regarded as impaired, if as a result of one or more than one events which occurred after the first-time recognition of the asset, there is an objective indicator that the expected future payment flows of the financial position have undergone a negative change.

For the subsequent valuation of the financial liabilities, these are classified – with the exception of the derivative financial instruments – in the valuation category other financial liabilities (valued at amortized cost). With the exception of contingent considerations arising from company mergers, the KPS Group does not designate any financial liabilities in the category of financial liabilities valued at fair value through profit or loss.

Reclassifications between the valuation categories were neither carried out in the year under review nor in the previous year.

Financial assets are derecognized if the contractual rights to payment have expired or the financial asset and essentially all the risks and opportunities associated with the ownership of the asset have been transferred to a third party. If KPS AG essentially neither transfers nor holds all the risks and opportunities associated with the ownership of the asset and continues to have power of disposal over the transferred asset, the remaining share in the asset and a corresponding liability relating to the amounts probably payable are recognized. If KPS AG essentially retains all the risks and opportunities associated with the ownership of the transferred asset, the financial asset continues to be recognized.

If a financial asset is completely derecognized, the difference between the book value and the total of the received or receivable consideration and all accumulated gains/losses which were recognized in other earnings and accrued in equity are to be recognized in the income statement. If a financial asset is not fully derecognized, the old book value of the transferred financial asset is divided between the portion which is no longer recognized, and the portion which continues to be recognized on account of the ongoing engagement, on the basis of the relative fair value of these portions on the date of the transfer. The difference between the book value which was allocated to the portion that is no longer recognized, and the total of the consideration received for the portion that is no longer recognized, and all the accumulated gains/losses allocated to it which were recognized in other earnings and accumulated in equity, should be recognized in the income statement.

Financial liabilities are derecognized when they have been settled, i.e. when the obligation has been paid, discharged or has expired. The difference between the book value of the derecognized financial liability and the received or receivable consideration should be recorded in the income statement.

Financial instruments are in each case derecognized on the settlement date.

3.11 Future receivables from production orders

Future receivables from production orders, which are made up of unfinished services and finished but not yet accepted services, are valued at manufacturing costs and with a profit surcharge appropriate for the percentage of completion, reduced by any losses being incurred, if the earnings of the production order can be reliably determined. The percentage of completion is calculated as a percentage of the costs incurred to the total costs (cost-to-cost method).

3.12 Trade receivables

Trade receivables are valued at amortized costs using the effective interest method. All identifiable risks are taken into account by an appropriate allowance.

3.13 Income taxes

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

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

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

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

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

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

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

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

3.14 Treasury shares

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

3.15 Tax provisions

The tax provisions include obligations on account of current income taxes which are likely to lead to cash outflows under of national tax regulations.

3.16 Other provisions

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

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

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

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

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

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

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

3.16.1 Pension provisions

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

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

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

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

3.17 Financial liabilities

Financial liabilities are categorized on the basis of the nature and intended use in accordance with IAS 39.9. All financial liabilities – with the exception of derivative financial instruments without hedging relationships (see above for information on this) – were classified as other financial liabilities pursuant to IAS 39.9 and on initial recognition reported at acquisition costs, which corresponds to the fair value of the consideration received. The transaction costs are also taken account of here. In the subsequent years, all liabilities are valued at amortized cost using the effective interest method (see above).

The Group derecognizes a financial liability if the Group's liability is discharged, cancelled, or has expired.

3.18 Other receivables and liabilities

Accrued items, prepaid expenses and other non-financial assets and liabilities are recognized at amortized costs. They are amortized by the straightline method or in accordance with the performance of the underlying transaction.

3.19 Company acquisitions

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

3.20 Procedure used in impairment tests and its impact

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

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

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

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

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

The weighted average cost of capital (WACC) used for recoverability tests of goodwill and for discounting of projected cash flows was 6.32 % (previous year: 6.35 %) for Germany. Country-specific risk mark-ups and deviating expectations for inflation were taken account of for goodwill amounts that are allocated to foreign cash generating units. The capitalization interest rates of foreign cash generating units are between 6.1 % and 7.85 %. When perpetual annuities are calculated, an additional growth factor of 1 % is used.

3.21 Derivative financial instruments and hedging relationships

The KPS Group uses derivative financial instruments in order to counteract risks arising from changes in interest rates which can occur in the context of investment and financial transactions. Derivative financial instruments are used to hedge existing underlying transactions.

If derivative financial instruments are used to hedge risks arising from future payment flows and to hedge balance sheet items, IAS 39 permits the application of special regulations for hedge accounting under certain specific conditions. This enables volatility to be reduced in the income statement. According to the type of hedged underlying transaction, a distinction is drawn between a Fair Value Hedge and a Cash Flow Hedge and a Hedge of a Net Investment in a Foreign Operation.

The derivative financial instrument (interest swap) used in the KPS Group does not fulfil the requirements for hedge accounting and it is therefore allocated to financial assets held for trading or liabilities. It is valued at fair value´ and recognized in the income statement on first-time reporting and in subsequent accounting periods. Gains or losses arising from fluctuations in fair value are recognized immediately in the income statement.

4 EXPLANATIONS FOR SEGMENT REPORTING

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

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

4.1 Management consulting / Transformation consulting

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

4.2 System integration

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

4.3 Products / Licenses

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

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

Segment reporting for the business year 2017/2018

Presentation by business areas in KEuros	Management consulting/ Transformation consulting		System Integration		Products/ Licenses		Other		Overall	
Earnings position	30.09.2018	Previous year	30.09.2018	Previous year	30.09.2018	Previous year	30.09.2018	Previous year	30.09.2018	Previous year
Sales	151,166	146,373	1,333	1,988	19,724	11,937	0	0	172,223	160,297
Production costs	-108,727	-103,579	-879	-1,370	-15,188	-8,532	0	0	-124,794	-113,480
Business development	-4,395	-3,619	-238	-292	-114	-88	0	0	-4,747	-3,999
Operating costs	-9,045	-4,473	-225	-433	-320	-335	-13,069	-11,166	-22,659	-16,406
EBITDA	28,999	34,702	-9	-107	4,102	2,982	-13,069	-11,166	20,024	26,412
Depreciation and amortization	-3,204	-1,481	0	0	0	0	-227	-176	-3,431	-1,658
EBIT	25,795	33,221	-9	-107	4,102	2,982	-13,295	-11,342	16,593	24,754
Interest	-19	898	0	0	0	0	-1,307	183	-1,326	1,081
Taxes	-5,047	-2,114	2	7	-803	-190	2,601	722	-3,246	-1,575

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

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

On account of the advancing integration of KPS digital GmbH (previously: getit GmbH) into the KPS Group, an adjustment of the business model of KPS digital GmbH to the main business of KPS is emerging, the segment management consulting/transformation consulting. For this reason, KPS digital GmbH has been allocated to this segment since the year under review. In accordance with IFRS 8.29, the comparative values from the previous year were adjusted.

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

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

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

4.4 Information on geographical areas

The breakdown of revenues amounting to 172.2 (previous year: 160.3) million euros by regions provides the following picture for the business year 2017/2018: the main sales contributor was Germany with 129.3 (previous year: 130.5) million euros or 75.1 %. Sales of 42.9 (previous year: 29.8) million euros were generated abroad. The geographical allocation is made on the basis of the registered office of the client. The breakdown can be divided into the following regions: Scandinavia with a volume of 16.4 (previous year: 15.8) million euros or 9.5 %, Spain with 11.8 (previous year: 0) million euros or 6.8 %, Benelux with 6.8 (previous year 6.7) million euros or 4.0 % and the United Kingdom with 4.0 (previous year: 0) million euros or 2.3 %. The remaining sales revenues amounted to 3.9 million euros (2.3 %) and were mainly generated in the USA. These belong to the segment of managing consulting/ transformation consulting.

4.5 Dependence on important customers

One (previous year: one) major customer in accordance with IFRS 8.34 is included in the segment "Management Consulting/Transformation Consulting", the revenues generated amount to 41.8 (previous year: 59.9) million euros.

5 SUBSIDIARIES AND AFFILIATES AND SCOPE OF CONSOLIDATION

5.1 Development of the scope of consolidation

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

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

Shareholding	**Registered office**	**Share in %**	**Currency**	**Subscribed capital 30.09.18 (previous year)**	**Equity capital 30.09.18 (previous year)**	**Result for the year 2016/2018 (previous year)**
KPS Business Transformation GmbH **1.)**	Unterföhring	100	KEuros	500 (500)	500 (500)	6,026 (8,008)
KPS Services GmbH	Unterföhring	100	KEuros	6,300 (6,300)	9,699 (10,266)	2,433 (5,334)
KPS Consulting Verwaltungs GmbH	Unterföhring	100	KEuros	26 (26)	38 (37)	1 (-1)
KPS Consulting GmbH & Co. KG	Unterföhring	100	KEuros	5,113 (5,113)	5,113 (5,113)	2,855 (5,660)
KPS Consulting AG	Zurich/ Switzerland	100	KCHF	100 (100)	602 (1,718)	-1,115 (396)
KPS Solutions GmbH	Unterföhring	100	KEuros	80 (80)	3,738 (966)	2,772 (2,668)
KPS digital GmbH **1.)**	Dortmund	100	KEuros	25 (25)	2,554 (2,554)	540 (3,962)
KPS Consulting A/S **2.)**	Virum/ Denmark	100	KDKK	500 (500)	23,079 (16,883)	18,251 (9,497)
KPS B.V.	Amsterdam/ Netherlands	100	KEuros	100 (100)	1,357 (406)	1,257 (44)
KPS Consulting Inc.	Wilmington/ USA	100	KUSD	100 (100)	827 (549)	727 (449)
KPS Strategie-, Prozess- und IT-Consulting GmbH	Vienna/ Austria	100	KEuros	100 (100)	57 (100)	-43 (0)
ICE Consultants Europe S.L. **3.)**	Barcelona/ Spain	100	KEuros	59 n/a	3,449 n/a	2,247 n/a
Infront Consulting & Management GmbH **4.)**	Hamburg	100	KEuros	50 n/a	521 n/a	84 n/a
Envoy Digital Ltd. **5.)**	London/ England	100	KGBP	208 n/a	1,253 n/a	307 n/a

1.) The profit for the year 2017/2018 was transferred to KPS AG in accordance with the profit transfer agreement concluded.

2.) On 1 October 2018, Saphira Consulting A/S, Denmark, which up to then had been included in the group of consolidated companies, was merged with KPS Consulting A/S, Denmark.

3.) On 2 October 2017, KPS AG acquired 100 % of the shares in ICE Consultants Europe S.L., Spain.

ICE Consultants Europe S.L. – hereinafter referred to as ICE – with registered office in Barcelona, Spain, was established with a company agreement dated 18 June 2001.

The objective of the company is process consulting in the area of information technology, in particular SAP consulting, Application Management Services (AMS) as well as the implementation of all associated business activities.

During the business year, ICE contributed 11,601 KEuros to the sales of the KPS Group, while 3,001 KEuros are included in the operating result (EBIT) for the business year. Since the date of first-time consolidation, the earnings of the acquired business after tax amount to 2,247 KEuros.

The fair value of the consideration (purchase price) comprises of the cash payments made amounting to 10,354 KEuros and a contingent purchase price amounting to 6,112 KEuros. The contingent purchase price will be paid in the business year 2018 – 2022, if EBIT of ICE continues to develop in line with expectations. The purchase price for 100 % of the shares in ICE can be allocated as follows at the date of acquisition and is likely to lead to the following net outflow taking into account the acquired cash and cash equivalents:

ICE Consultants Europe S.L. in KEuros	Book value before acquisition	Adjustment to fair value	Fair value
Acquired assets and liabilities			
Goodwill	0	12,244	12,244
Other intangible assets	0	4,028	4,028
Property, plant and equipment	69	0	69
Other non-current assets	2,305	0	2,305
Cash and cash equivalents	646	0	646
Other provisions	39	0	39
Other liabilities	1,780	0	1,780
Deferred taxes	0	1,007	1,007
Net assets	**1,201**	**15,265**	**16,466**

Fair value of considerations	16,466
conditional considerations included therein	6,112
Acquired cash and cash equivalents	646
Expected net outflow from the acquisition	**15,820**

Net outflow of liquid funds in the business year 2017/2018	
Consideration paid in the form of liquid funds	10,354
less acquired liquid funds	-646
Net outflow in the business year 2017/2018	**9,708**

The differences between the residual book values and the fair values at the date of acquisition are taken account of at the purchaser with the adjustment amount (fair-value adjustment).

The contingent considerations (earn-out obligations) were determined on the basis of individual plans for the company. A WACC of 7.85 % was used to determine the obligation as at 30 September 2018. This interest rate includes country-specific risks. According to the calculation, the total earn-out will amount to 9,753 KEuros at the end of the year under review, the minimum amount is 1,984 KEuros, a maximum purchase price and therefore a cap for the earn-out was not defined.

The remaining goodwill after purchase price allocation can be allocated to various factors. Alongside general synergies in the administration processes and infrastructures, these include significant cost savings in the functions of development, marketing, sales, purchasing, and production. Furthermore, the acquisition leads to a strengthening of the market position of the KPS Group in the region of Southern Europe. Goodwill is not deductible for tax purposes.

The following table shows the fair values for the acquired other intangible assets:

in KEuros	**Fair values**
Customer orders	1,201
Customer relationships	2,827
Total	4,028

The value of customer relationships will be charged to expenses and amortized progressively over a period of approximately seven years, the value of the open orders will be amortized over the likely order periods for a period of approximately two years. The amortization periods shown are attributed analogously to effects in deferred taxes.

Acquired receivables amounting to 2,304 KEuros are included in other current assets. The gross amounts for contractual receivables amount to 2,304 KEuros of which none are known to be non-recoverable receivables.

The book values before acquisition are based on the interim financial statements of ICE Consultants Europe S.L. immediately before the acquisition was closed. The amounts which are recognized at the date of first-time consolidation in the consolidated financial statements of KPS AG represent the estimated fair values of the acquired assets and liabilities. The allocation of the purchase price has been carried out on the basis of the best current estimate by the management.

The management assumes that the book value of the reported goodwill corresponds to the recoverable amount.

4.) On 2 January 2018, KPS AG acquired 100 % of the shares in Infront Consulting & Management GmbH.

Infront Consulting & Management GmbH – hereinafter referred to as Infront – with registered office in Hamburg was established with a company agreement dated 8 December 1999.

The object of the company is management consulting in the area of business administration, in particular strategy, organization, and business-process optimization, as well as the implementation of all associated business activities.

During the business year, Infront contributed 2,987 KEuros to the sales of the KPS Group, while 134 KEuros are included in the operating result (EBIT) for the business year. Since the date of first-time consolidation, the earnings of the acquired business after tax amounted to 84 KEuros. Sales of Infront over the entire business year from 1 October 2017 to 30 September 2018 amount to 4,274 KEuros, EBIT amounts to 413 KEuros.

The fair value of the consideration (purchase price) comprises of cash payments made amounting to 4,644 KEuros, transferred treasury shares with a value of 1,934 KEuros and a contingent purchase price amounting to 4,636 KEuros. The contingent purchase price is scheduled for payment in the years from 2018 to 2023, if the EBT continues to develop in line with expectations. The purchase price for 100 % of the shares in Infront can be allocated as follows at the date of acquisition and is likely to lead to the following net outflow taking into account the acquired cash and cash equivalents:

Infront Consulting & Management GmbH **in KEuros**	**Book value before acquisition**	**Adjustment to fair value**	**Fair value**
Acquired assets and liabilities			
Goodwill	0	10,193	10,193
Other intangible assets	0	829	829
Property, plant and equipment	79	0	79
Other current assets	1,141	0	1,141
Cash and cash equivalents	353	0	353
Other provisions	549	0	549
Other liabilities	336	0	336
Bank liabilities	250	0	250
Deferred taxes	0	247	247
Net assets	**438**	**10,775**	**11,213**

Fair value of considerations	11,213
conditional considerations included therein	4,636
Acquired cash and cash equivalents	353
Expected net outflow from the acquisition	**10,860**

Net outflow of liquid funds in the business year 2017/2018	
Consideration paid in the form of liquid funds	4,644
Consideration paid in the form of shares in KPS AG	1,934
Less acquired liquid funds	-353
Net outflow in the business year 2017/2018	**6,225**

The goodwill arising from the acquisition, primarily relates to the skills of the employees acquired at Infront and the expected synergies arising from integration within the existing business operations of KPS AG.

The contingent considerations (earn-out obligations) were determined on the basis of individual plans of the company. WACC of 6.32 % was used to determine the obligation as at 30 September 2018. According to the calculation, the total earn-out will amount to 4,628 KEuros at the end of the year under review. The theoretical minimum amount is 0 KEuros, the maximum amount is 8,423 KEuros.

Acquired receivables amounting to 1,112 KEuros are posted in other current assets. The gross amounts for the contractual receivables are 1,112 KEuros. No unrecoverable receivables are known.

5.) On 9 February 2018, KPS AG acquired 100 % of the shares in Envoy Digital Limited, England.

Envoy Digital Limited – hereinafter referred to as Envoy – with registered office in London was established with a company agreement dated 3 November 1997.

The object of the company is providing consultancy services in the area of information technology, primarily SAP consulting, and implementation of all associated business activities.

In the business year, Envoy contributed 3,890 KEuros to the sales of the KPS Group, while 493 KEuros are included in the operating result (EBIT) for the business year. Since the date of first-time consolidation, the earnings of the acquired business after tax amounted to 348 KEuros. Sales of Envoy over the entire business year from 1 October 2017 to 30 September 2018 amount to 5,377 KEuros, EBIT amounts to 882 KEuros.

The fair value of the consideration (purchase price) comprises of cash payments made amounting to 5,996 KEuros and a contingent purchase price amounting to 3,884 KEuros. The contingent purchase price is to be paid between 2018 and 2023, provided that EBT develops steadily as expected. The purchase price for 100 % of the shares in Envoy can allocated to the acquired assets and liabilities as follows at the date of acquisition and is likely to lead to the following net outflow taking into account the acquired cash and cash equivalents.

Envoy Digital Ltd. **in KEuros**	**Book value before acquisition**	**Adjustment to fair value**	**Fair value**
Acquired assets and liabilities			
Goodwill	0	7,883	7,883
Other intangible assets	0	1,150	1,150
Property, plant and equipment	48	0	48
Other current assets	930	0	930
Cash and cash equivalents	914	0	914
Other provisions	441	0	441
Other liabilities	385	0	385
Deferred taxes	0	218	218
Net assets	**1,066**	**8,815**	**9,881**

Fair value of considerations	9,881
conditional considerations included therein	3,884
Acquired cash and cash equivalents	914
Expected net outflow from the acquisition	**8,967**

Net outflow of liquid funds in the business year 2017/2018	
Consideration paid in the form of liquid funds	5,996
less acquired liquid funds	-914
Net outflow in the business year 2017/2018	**5,082**

The goodwill arising from the acquisition primarily relates to the skills of the employees acquired at Envoy and the expected synergies arising from integration within the existing business operations of KPS AG.

The contingent considerations (earn-out obligations) were determined on the basis of individual plans of the company. A WACC of 6.75 % was used to determine the obligation as at 30 September 2018. According to the calculation, the total earn-out amounts to 4,916 KEuros at the end of the year under review, the theoretical minimum amount is 657 KEuros, the theoretical maximum amount is 4,931 KEuros.

Acquired liabilities amounting to 486 KEuros are posted in other current assets. The gross amounts for the contractual receivables are 486 KEuros. No unrecoverable receivables are known.

5.2 Acquisitions and establishments after the balance sheet date

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

5.3 Divestments and assets held for sale

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

6 EXPLANATIONS FOR THE INCOME STATEMENT

6.1 Revenues

The recognized revenues result from ordinary business activities. Please refer to our comments under section 4.3 in relation to allocation to individual segments. The revenues are allocated to the individual sales generators as follows:

	Year under review 2017/2018		Year under review 2016/2017	
	KEuros	%	KEuros	%
Provision of services	161,898	94 %	155,909	97 %
Sale of goods	77	0 %	0	0 %
User charges	10,248	6 %	4,388	3 %
Total revenues	172,223	100 %	160,297	100 %

6.2 Own work capitalized

In the business year, internally generated intangible assets amounting to 2,832 (previous year: 5,141) KEuros were capitalized. The capitalizations are shown in the following table:

	Year under review 2017/2018	Year under review 2016/2017
	KEuros	KEuros
Development of processing streams for SAP	2,338	4,773
Internally generated software	494	368
Total all work capitalized	2,832	5,141

6.3 Other operating income

Other operating income amounts to 3,233 (previous year: 2,820) KEuros and is presented in the following table:

	Year under review 2017/2018	Year under review 2016/2017
	KEuros	KEuros
Income from release of provisions	2	128
Income from release of earn-out obligations	2,153	1,932
Income from discounts	256	353
Income from exchange-rate differences	505	276
Charging of payments in kind to employees	123	104
Other income	194	27
Total other operating income	3,233	2,820

In the business year 2017/2018, notice was served on the earn-out arrangement agreed with the sellers of Saphira Consulting A/S, Virum, Denmark, by mutual agreement. This was replaced by a new agreement with a longer term. The liabilities for the earn-out payments amounting to 1,109 KEuros were therefore released with effect on income in 2017/2018. The new agreement provides for an earn-out payment amounting to 547 KEuros for the business year. This amount was recognized in the income statement under personnel expenses.

Furthermore, income amounting to 1,044 KEuros is recognized from the release of earn-out obligations, arising from the revaluation of fair value for future earn-out obligations on 30 September 2018.

6.4 Cost of materials

The cost of materials amounts to 68,489 (previous year: 67,574) KEuros and includes expenses for hardware and software purchased amounting to 7,934 (previous year: 3,196) KEuros and expenses for services purchased amounting to 60,555 (previous year: 64,378) KEuros.

6.5 Personnel expenses and employees

Personnel expenses in the year under review amount to 62,187 (previous year: 53,270) KEuros. Wages and salaries account for 55,012 (previous year: 47,615) KEuros and social security expenses account for 7,175 (previous year: 5,655) KEuros.

The expenses for defined benefit pension plans included in personnel expenses amount to 272 (previous year: 349) KEuros.

On average, 565 (previous year: 454) employees (not including Members of the Executive Board and Managing Directors) were employed over the year, of which 498 (previous year: 406) were consultants and 67 (previous year: 48) were administrative employees.

	30.09.2018	30.09.2017	Change
Employees by region			
Germany	457	457	0
Spain	65	0	65
England	35	0	35
Denmark	20	16	4
Switzerland	8	12	-4
Austria	5	0	5
Netherlands	1	2	-1
Total	591	487	104
Employees by function			
Executive Board	1	1	0
Managing Directors	14	5	9
Consultants	508	426	82
Administration	67	53	14
Apprentices	1	2	-1
Total	591	487	104

6.6 Other operating expenses

Other operating expenses amount to 27,589 (previous year: 21,002) KEuros and the breakdown is shown in the following table:

in KEuros	2017/2018	2016/2017
Travel and hospitality costs	7,628	6,264
Vehicle costs	2,956	2,535
Purchased services	2,453	2,464
Addition of earn-out obligations	2,206	0
Legal and consulting costs	2,126	1,499
Premises costs	1,874	1,404
Advertising and marketing costs	1,614	1,356
Valuation allowance for receivables	1,060	541
Personnel recruitment and advanced training	945	958
Hire costs for operating and business equipment	905	685
Currency translation differences	708	502
Telephone and other communication costs	698	650
Capital market costs	275	214
Insurance policies	206	151
Other expenses	1,935	1,779
Total other operating costs	27,589	21,002

6.7 Depreciation and amortization

Depreciation and amortization for the business year amount to a total of 3,430 (previous year: 1,657) KEuros. The breakdown of the depreciation and amortization is presented in the table showing development of fixed assets.

Out of depreciation and amortization amounting to 3,430 KEuros, 2,581 KEuros are attributable to amortization on order backlog and customer relationships. These are assets that were recognized in the context of the purchase price allocation for the company acquisitions of the current business year and previous years. This amortization is recognized in a separate line in the income statement and an operating result (EBIT) before this write-down is reported in order to show the effect of the acquisition separately.

6.8 Other financial income and expenses

Other financial income amounts to 13 (previous year: 1,215) KEuros and results primarily from discounting of non-current liabilities.

Other financial expenses amount to 1,339 (previous year: 134) KEuros and interest expenses from revaluation of earn-out liabilities amounting to 957 (previous year: 0) KEuros, interest and guarantee fees to banks amounting to 314 (previous year: 39) KEuros, and compounding of non-current provisions amounting to 17 (previous year: 95) KEuros, and changes to fair value of financial liabilities designated at fair value and recognized in the income statement amounting to 51 (previous year: 0) KEuros.

6.9 Income taxes

Income taxes for the business years 2017/2018 and 2016/2076 are shown in the following table:

	Year under review 2017/2018	Year under review 2016/2017
	KEuros	**KEuros**
Current tax expense	-3,329	-1,567
Tax expense for previous years	82	-8
Deferred tax expenses	-2,189	-4,462
Income taxes	-5,436	-6,037

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

On 30 September 2018, tax loss carryforwards amount to 27,395 (previous year: 36,730) KEuros for trade tax and 19,030 (previous year: 28,330) KEuros for corporate income tax.

In order to calculate deferred taxes, the local tax rates of the affected national countries were applied, these are between 19.0 % and 28.9 %.

The amount of unusable tax losses for which no deferred tax asset was recognized amounts to 760 (previous year: 330) KEuros for corporate income tax and 13,731 (previous year: 12,681) KEuros for trade tax.
The following table shows a reconciliation of the expected tax expense, based

on the German combined income tax rate of the company from the current rate of 28.9 % (previous year: 29.8 %) to the actual tax burden. The combined rate of income tax for the year under review is made up of corporate income tax amounting to 15 % (previous year: 15 %) plus 5.5 % (previous: 5.5 %) solidarity surcharge and trade tax amounting to 13.1 % (previous year: 14.0 %).

in KEuros	2017/2018	2016/2017
Profit before income Taxes	15,267	25,836
Income tax rate	28.9 %	29.8 %
Expected nominal tax expense	**-4,409**	**-7,686**
Tax consequences resulting from:		
Tax effects on account of loss carryforwards	2,662	4,488
Tax effects on account of goodwill write-downs	10	0
Tax effects on account of non-deductible operating expenses and other tax modifications	-1,042	1,609
Deferred taxes on loss carryforwards	-3,145	-4,168
Deferred taxes on account of HB II (commercial balance sheet II) adjustments / StB (tax balance sheet effects)	956	-293
Deviation from foreign tax rates	268	0
Tax effects relating to other accounting periods	-588	0
Other effects	-148	13
Actual income tax expense	-5,436	-6,037
Effective tax rate	**35.6 %**	**23.4 %**

Deferred tax assets and liabilities

in KEuros	30.09.2018		30.09.2017	
	Assets	Liabilities	Assets	Liabilities
Loss carryforwards	4,675	0	7,820	0
Pension provision	232	0	260	0
Other provisions	121	378	165	469
Trade receivables	0	206	0	565
Fixed assets	460	1,630	381	652
Other items	0	0	0	0
Total	5,488	2,214	8,626	1,686

This item relates to IFRS differences in respect of the commercial balance sheet (II)/tax balance sheet. Deferred tax assets amounting to 3,463 (previous year: 5,039) KEuros have a term of more than one year. Out of the deferred tax liabilities, 2,008 (previous year: 1,113) KEuros are non-current and 584 (previous year: 573) KEuros are current.

6.10 Earnings per share

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

In January 2018, all 133,365 treasury shares were transferred to the seller as part of the purchase price for Infront Consulting & Management GmbH. Owing to this transfer, the average number of shares in free float amounted to 37,371,072 (previous year: 37,278,742) no-par shares. By comparison with the previous year, the earnings per share were calculated as follows:

	2017/2018	2016/2017
Group earnings attributable to shareholders of KPS AG in KEuros	9,831	19,799
Average number of shares	37,371,072	37,278,742
Basic/diluted earnings per share in euros	0.26	0.53

6.11 Other earnings

Other earnings amounting to 220 (previous year: 297) KEuros comprise changes in the obligation arising from a fully insured BVG Plan to be classifed as a defined-benefit pension plan of KPS Consulting AG, Zurich, Switzerland amounting to 169 (previous year: 297) KEuros, and from currency translation differences from financial statements that were prepared in foreign currencies amounting to 51 KEuros (previous year: 0) KEuros.

7 EXPLANATIONS FOR THE BALANCE SHEET

7.1 Property, plant and equipment

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

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

7.2 Goodwill and other intangible assets

The item includes software and associated licenses, which were partly self-developed and also purchased against payment. During the course of the business year, development costs amounting to 2,832 (previous year: 5,141) KEuros were capitalized. The development costs are written down as soon as the assets can be used over the likely useful life of up to 10 years. A proportion of the assets were produced in the year under review. The amortization amounted to 363 (previous year: 203) KEuros in the year under review.

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

The recognized goodwill amounts to 62,546 (previous year: 32,227) KEuros and is allocated to the following cash-generating units:

in KEuros	2017/2018	2016/2017
KPS Services GmbH	1,158	1,158
KPS Consulting GmbH & Co. KG	7,791	7,791
KPS Solutions GmbH	345	345
Saphira Consulting A/S	1,755	1,755
KPS digital GmbH (formerly getit GmbH)	21,178	21,178
ICE Consultants Europe S.L.	12,243	0
Infront Consulting & Management GmbH	10,193	0
Envoy Digital Ltd.	7,883	0
Total	62,546	32,227

During the business year, other intangible assets amounting to 6,007 (previous year: 3,608) were capitalized as assets on the date of acquisition in the context of the company merger. The following table lists the individual relevant assets:

in KEuros	Capitalization 2017/2018	Amortization period (months)
Order backlog ICE Consultants Europe S.L.	1,201	26
Customer relations ICE Consultants Europe S.L.	2,827	86
Order backlog Infront Consulting & Management GmbH	167	6
Customer relations Infront Consulting & Management GmbH	662	54
Order backlog Envoy Digital Ltd.	38	14
Customer relations Envoy Digital Ltd.	1,112	74
Total	6,007	

7.3 Deferred tax assets

Deferred tax assets amount to 5,488 (previous year: 8,626) KEuros and essentially reflect the level of likely tax loss carry-forwards of KPS AG, KPS Consulting GmbH & Co. KG, KPS Services GmbH and KPS Solutions GmbH.

7.4 Future receivables from production orders

Sales and expenses from production orders are reported in accordance with the Percentage of Completion Method, according to which sales are recognized in accordance with the stage of completion. The stage of completion is determined from the ratio of the order costs incurred up to the balance sheet date to the total estimated order costs on the balance sheet date (cost-to-cost method). If a significant period of time is necessary for the processing of a production order, the order costs also include attributable borrowing costs. According to the percentage of completion method, reported production orders are recorded under trade receivables on the basis of the order costs incurred as at the reference date plus proportionate profits earned based on the percentage of the contract completed. Any order changes, subsequent claims or performance fees are taken into account if they have been bindingly agreed with the customers. If the earnings of a production order cannot be reliably estimated, sales that can probably be recovered up to the amount of the incurred costs are reported. Order costs are recorded in the period during which they are incurred. If it can be foreseen that the total order costs will exceed the income from the order, the anticipated losses are recorded directly as expenses.

The following table shows the receivables resulting from reporting of production orders:

in KEuros	30.09.2018	30.09.2017
Order costs incurred up to the balance sheet date plus recorded profits or less recorded losses	2,282	5,442
losses	0	0
Partial settlements	0	0
Balance	2,282	5,442
of which asset balance (receivables from production orders)	2,282	5,442
of which liabilities balance (liabilities from production orders)	0	0

Payments received for customer-based production orders amounting to 1,887 (previous year: 1,532) KEuros will be recognized under the balance sheet item advance payments received.

Sales from customer-based production orders (order revenues in accordance with IAS 11) amount to 2,282 (previous year: 5,442) KEuros, the total of the incurred costs amounts to 1,779 (previous year: 3,164) KEuros, the recognized profits amount to 503 (previous year: 2,209) KEuros.

7.5 Trade receivables

Receivables and other assets are recognized after deduction of allowances for doubtful items. On 30 September 2018, trade receivables amount to 41,667 (previous year: 37,450) KEuros, on which specific valuation allowances amounting to 212 (previous year: 547) KEuros are formed.

The following table shows the development of allowances on trade receivables in accordance with IFRS 7.16:

in KEuros	2017/2018	2016/2017
Balance of allowances on 01.10.	547	44
+ Additions	111	503
- Utilization/release	-446	0
Balance of allowances on 30.09.	212	547

The additions amounting to 111 KEuros relate to overdue receivables for which only a partial incoming payment is expected. All allowances related to the Management Consulting/Transformation Consulting segment and were recognized as expense in the income statement.

In addition, unrecoverable receivables amounting to 852 KEuros were derecognized in the year under review 2017/2018. These also relate to the Management Consulting / Transformation Consulting segment and were recognized as expense in the income statement.

7.6 Other receivables

Other receivables amount to 1,342 (previous year: 1,344) KEuros and are comprised as follows:

in KEuros	2017/2018	2016/2017
Advance payments	582	478
Receivables from employees	119	138
Payments on account	110	88
Deposit payments	181	132
Creditor accounts in debit	203	277
Refund claims from foreign input taxes	146	164
Other receivables	1	67
Total other assets	1,342	1,344

7.7 Entitlements to income tax rebates

On the balance sheet date, entitlements arising from income tax amounted to 245 (previous year: 72) KEuros.

7.8 Cash and cash equivalents

Bank balances and cash in hand amount to 9,084 (previous year: 6,665) KEuros on the balance sheet date. The development of liquid funds is shown in the cash flow statement.

7.9 Shareholders' equity

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

7.9.1 Subscribed capital

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

The number of shares on the balance sheet date amounted to 37,412,100 no-par shares (previous year: 37,278,742 no-par shares).

During the course of the business year, the entire portfolio of treasury shares held was transferred to the sellers of Infront Consulting & Management GmbH as partial payment of the purchase price. On the reference date, no treasury shares were held (previous year: 133,365 no-par shares)

7.9.2 Authorized capital

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

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

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

7.9.3 Contingent capital

The resolution passed by the ordinary Annual General Meeting held on 7 April 2017 increased the capital stock by up to EUR 2,000,000 ordinary bearer par-value shares (contingent capital 2017/I). The contingent capital increase serves exclusively for the purpose of granting share option rights. The Executive Board was authorized to issue such rights up to 6 April 2022.

7.9.4 Capital reserve

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

The following table shows the development:

in KEuros	
Balance on 01.10.2016	**-11,595**
Capital gain from treasury shares	0
Share premium on capital increase	0
Balance on 01.10.2017	**-11,595**
Capital gain from treasury shares	1,373
Share premium on capital increase	0
Balance on 30.09.2018	**-10,222**

7.9.5 Retained earnings

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

7.9.6 Other earnings

Other earnings amounting to -427 (previous year: -647) KEuros are made up as follows:

in KEuros	30.09.2018	30.09.2017
Items not reclassified in the income statement:		
Change in actuarial profits (losses) from pension plans	-478	-647
Item that will not be reclassified in the income statement in future:		
Exchange-rate differences	51	0
of which changes in unrealized gains/losses	51	0
of which realized gains/losses	0	0
Other comprehensive income before taxes	**-427**	**-647**
Taxes on other earnings	0	0
Other earnings after taxes	**-427**	**-647**

7.9.7 Net profit

The development of the net profit recognized on 30 September 2018 amounting to 37,654 (previous year: 40,476) KEuros is shown in the following table:

in KEuros	2017/2018	2016/2017
Balance on 01.10.	**40,476**	**32,979**
Earnings after income taxes	9,831	19,799
Share premium on treasury shares	441	0
Allocation to other retained earnings	0	0
Dividend payout	**-13,094**	**-12,302**
Balance on 30.09.	**37,654**	**40,476**

The payout is based on the resolution adopted by the Annual General Meeting on 23 March 2018, according to which 0.35 (previous year: 0.33) euros were paid on each dividend-bearing share. The Annual General Meeting therefore concurred with the proposal by the Executive Board.

7.9.8 Treasury shares

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

Up to the balance sheet date, a total of 640,158 (of which in the business year 2017/2018: none) no-par shares were purchase and 640,158 (of which in the business year 2017/2018: 121,248) no-par shares were disposed of by transfer of treasury shares as part of the acquisition of shares in Infront Consulting & Management GmbH. As a result of the reduction of the capital stock in the business year 2015/2016, seven own shares were redeemed, so that the total portfolio was reduced to 121,241 no-par shares. As a result of the resolution on a capital increase passed by the Annual General Meeting held in the business year 2015/2016, the portfolio of treasury shares was increased by 12,124 no-par shares to 133,365 no-par shares. The total portfolio of treasury shares was then transferred to the seller as part of the purchase of Infront Consulting & Management GmbH as part of the purchase price. No portfolio of treasury shares was held on the balance sheet date.

7.10 Non-current provisions

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

in KEuros	01.10.2017	Utilization	Release	Addition	30.09.2018
Provision for personnel	1,547	-285	0	987	2,249
Provision for pensions IAS 19	873	-28	0	0	845
Total	2,420	-313	0	987	3,094

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

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

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

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

	2017/2018	2016/2017
1. Actuarial assumptions IAS 19.144		
Discount rate (DR) as at 01.10.	0.80 %	0.20 %
Discount rate (DR) as at 30.09.	0.90 %	0.80 %
Interest rate on retirement assets as at 30.09.	0.90 %	0.80 %
Future salary increases (SI) as at 30.09.	1.50 %	2.00 %
Future pension increases (PI) as at 30.09.	0.00 %	0.00 %
Future inflation as at 30.09.	0.50 %	0.50 %
Mortality tables	BVG2015 GT	BVG2015 GT
Date of the last actuarial valuation	30.09.18	30.09.17
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	2,829	2,658
Capital value from plan assets as at 30.09	1,984	1,784
Deficit/(surplus) as at 30.09	845	873
Adjustment to upper limit	0	0
Net debt from defined benefit pension plans (assets) as at 30.09.	**845**	**873**
of which recognized as separate (asset)	0	0
of which recognized as separate liability	845	873
3. Components of defined benefit costs in the income statement IAS 19.140		
Current Service Cost (employer)	263	346
Past Service Cost	0	0
(Gains) and losses from plan compensation	0	0
Expenses from compounding of defined benefit obligations	23	5
Interest (income) from plan assets	-15	-3
Administrative costs plus costs for administration of plan assets	1	1
Components of the defined benefit costs recognized in the income statement	**272**	**349**
of which service and administrative costs	264	347
of which net interest on the net debt from defined benefit pension plans (asset)	8	2
4. Components of defined benefit costs in OCI IAS 19.140		
Actuarial (gain)/loss on the cash value of the defined benefit obligation	-160	-273
Income from plan assets plus interest income	-9	23
Change in assets of the upper limit plus interest expense/income	0	0
Income from income claims plus interest income	0	0
Other	0	0
Components of the defined benefit costs recognized in the OCI	**-169**	**-250**
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	883	935
Components of the defined-benefit costs recognized in the income statement	272	349
Components of the defined-benefit costs recognized in the OCI	-169	-250
Contributions by the employer	-140	-160
Other	0	0
Components of the defined-benefit costs recognized in the OCI	**845**	**873**
6. Development of the cash value of the defined-benefit obligations IAS 19.140 (a), 19.141		
Cash value of the defined benefit obligation as at 01.10	2,687	2,392
Expenses of the cash value of the defined-benefit obligation	23	5
Current Service Cost (employee)	263	346
Contributions by plan participants	140	160
(Paid-out)/paid-in benefits	-125	27
Administrative costs (plus costs for administration of plan assets)	1	1
Actuarial (gain)/loss on the cash value of the defined benefit obligation (settlement amount)	-160	-273
Cash value of the defined benefit obligation as at 01.10	**2,829**	**2,658**
7. Components of actuarial gain/loss on obligations IAS 19.141		
Actuarial (gain)/loss on account of amendments to financial assumptions	-92	-217
Actuarial (gain)/loss on account of amendments to demographic assumptions	0	0
Actuarial (gain)/loss on account of expectancy value adjustments	-69	-56
Actuarial (gain)/loss from the cash value of the defined benefit obligation	**-160**	**-273**

	2017/2018	2016/2017
8. Development of the capital value from plan assets IAS19.140 (a), IAS 19.141		
Capital value from plan assets as at 01.01	1,804	1,457
Interest income from plan assets	15	3
Contributions by the employer	140	160
Contributions by the plan participants	140	160
(Paid-out)/paid-in benefits	-125	27
Other	0	0
Income from plan assets plus interest income	9	-23
Capital value from plan assets as at 01.01	**1,984**	**1,784**
8a. Actual income from plan assets		
Interest from income from plan assets	15	3
Income from plan assets plus interest income	9	-23
Actual income from plan assets	**24**	**-20**
9. Components of the economic benefit available IAS 19.141 c		
Economic benefit available in the form of a rebate	0	0
Economic benefit available in the form of a reduction in future contributions	5,277	12,709
Total economic benefit available	**5,277**	**12,709**
9a. Recognizable amount under IAS 19.64		
(a) Deficit/(surplus) in the defined benefit plan		
- Cash value of the defined benefit obligation	-2,829	-2,658
+ Fair value of the plan assets	1,984	1,784
Deficit/surplus (+ = asset value; - = liability)	-845	-873
(b) Upper limit, economic benefit available	5,277	12,709
Recognizable amount (lower than (a) and (b) if asset)	-845	-873
10. Estimate of the contributions from next year IAS 19.147 (b)		
Contributions by employees	135	158
Contributions by plan participants	135	158
11. Plan asset classes (non-listed price) IAS 19.142		
Cash and cash equivalents	0	0
Equity instruments	0	0
Debt securities	0	0
Real estate	0	0
Derivatives	0	0
Investment funds	0	0
Asset-backed securities	0	0
Structured debts	0	0
Other	1,984	1,784
Total interest income on the capital value (non-listed price)	**1,984**	**1,784**
of which own transferable financial instruments of the entity	0	0
of which ownership, which is used by the entity, or other assets which are applied by it	0	0
12. Sensitivity analysis IAS 19.145		
DBO = Cash value of the defined benefit obligation, SC = Service Cost (employer)		
DBO as at 30.09. with DR -0.25 %	2,968	2,794
DBO as at 30.09. with DR +0.25 %	2,700	2,532
DBO as at 30.09. with SI -0.25 %	2,802	2,631
DBO as at 30.09. with SI +0.25 %	2,859	2,684
DBO at as 30.09. with life expectancy + 1 year	2,869	2,695
DBO as at 30.09. with life expectancy - 1 year	2,788	2,620
SC of next year with DR +0.25 %	167	240
SC of next year with IR +0.25 %	188	266
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	18.8	19.5
Weighted average term of the cash value of the defined benefit obligation in years for active members	18.8	19.5
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	2,829	2,658
Cash value of the defined benefit obligation as at 30.09. for pensions	0	0
Cash value of the defined benefit obligation as at 30.09. for suspended members	0	0

7.10.1 Other non-current liabilities

The other non-current liabilities amounted to 10,252 (previous year: 538) KEuros and include the following items:

In KEuros	2017/2018	2016/2017
Earn-out obligation – acquisition of Saphira Consulting A/S	0	538
Provisions for future earn-out payments	10,201	0
Valuation of financial derivatives	51	0
Total	10,252	538

Non-current financial liabilities amount to 12,400 (previous year: 0) KEuros. These relate to loans to finance company acquisitions with a residual term of 4.5 years.

7.11 Deferred tax liabilities

Deferred tax liabilities result from temporary differences between the tax balance sheet and the consolidated balance sheet and amounted to 2,214 (previous year: 1,686) KEuros.

7.12 Trade liabilities

Trade liabilities result primarily from purchased consulting services.

7.13 Financial liabilities

On the balance sheet date, liabilities to banks amounted to 8,800 (previous year: 0) KEuros with a residual term of up to one year.

7.14 Advance payments received

Advance payments received amount to 2,081 (previous year: 1,540) KEuros and relate to 1,887 (previous year: 1,532) KEuros for advance payments received on production orders and 194 (previous year: 8) KEuros for service revenues received in advance which are accrued over future business years.

7.15 Tax provisions

The development of tax provisions is shown in the following table:

in KEuros	01.10.2017	Addition from acquisitions	Utilization	Release	Addition	30.09.2018
Provision for personnel	879	139	-893	-	1,367	1,492
Provision for trade tax	993	220	-771	-	429	872
Total	1,872	360	-1,664	-	1,796	2,364

7.16 Other provisions

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

in KEuros	01.10.2017	Addition from acquisitions	Utilization	Release	Addition	30.09.2018
Provision for personnel	7,327	197	-7,501	-2	7,919	7,940
Provision for outstanding accounts	188	19	-207	-	347	347
Provision financial statements/audit expenses	151	22	-173	-	188	188
Other provisions	1,888	568	-2,180	-0	942	1,218
Total	9,555	806	-10,061	-2	9,396	9,694

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

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

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

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

7.17 Other liabilities

The other liabilities amount to 12,534 (previous year: 6,821) KEuros and their development is shown in the following table:

	30.09.2018		**30.09.2017**	
in KEuros	**up to 3 months**	**3 – 12 months**	**up to 3 months**	**3 – 12 months**
Liabilities to employees	2,637	0	3,084	0
Wage and church taxes due	1,223	0	996	0
Liabilities for sales taxes and other taxes	1,347	0	1,446	0
Social security payments due	155	0	193	0
Earn-out getit GmbH	0	0	0	449
Earn-out Saphira Consulting A/S	0	547	0	574
Earn-out ICE Consultants Europe S.L.	1,984	1,827	0	0
Earn-out Infront Consulting & Management GmbH	0	1,107	0	0
Earn-out Envoy Digital Ltd.	676	935	0	0
Other liabilities	96	0	79	0
Total other liabilities	8,118	4,416	5,798	1,023

7.18 Liabilities for income tax

The tax liabilities amounting to 443 (previous year: 788) KEuros comprise liabilities for corporate income taxes 443 (314) KEuros and liabilities for trade taxes 0 (previous year: 474) KEuros.

7.19 Reporting on financial instruments

7.19.1 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:

- Loans and Receivables granted (LaR)
- Financial Liabilities measured at Amortized Costs (FLAC)
- Financial Liabilities at Fair Value through profit or loss (FV)

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

	Valued at the fair value	Valued at amortized cost		Not within the scope of IFRS 7	Balance sheet items on 30.09.2018
in KEuros	**Book value**	**Book value**	**Fair value**	**Book value**	
Current assets					
Future receivables from production orders	0 (previous year: 0)	2,282 (previous year: 5,442)	2,282 (previous year: 5,442)	0 (previous year: 0)	2,282 (previous year: 5,442)
Trade receivables	0 (previous year: 0)	41,667 (previous year: 37,450)	41,667 (previous year: 37,450)	0 (previous year: 0)	41,667 (previous year: 37,450)
Other receivables and financial assets	0 (previous year: 0)	1,195 (previous year: 1,180)	1,195 (previous year: 1,180)	146 (previous year: 164)	1,341 (previous year: 1,344)
Cash and cash equivalents	0 (previous year: 0)	9,084 (previous year: 6,665)	9,084 (previous year: 6,665)	0 (previous year: 0)	9,084 (previous year: 6,665)
Non-current liabilties					
Financial liabilities	0 (previous year: 0)	12,400 (previous year: 0)	12,400 (previous year: 0)	0 (previous year: 0)	12,400 (previous year: 0)
Other liabilities	10,252 (previous year: 538)	0 (previous year: 0)	0 (previous year: 0)	0 (previous year: 0)	10,252 (previous year: 538)
Current liabilities					
Financial liabilities	0 (previous year: 0)	8,800 (previous year: 0)	8,800 (previous year: 0)	0 (previous year: 0)	8,800 (previous year: 0)
Trade liabilities	0 (previous year: 0)	10,911 (previous year: 11,475)	10,911 (previous year: 11,475)	0 (previous year: 0)	10,911 (previous year: 11,475)
Other liabilities	6,529 (previous year: 574)	3,435 (previous year: 3,000)	3,435 (previous year: 3,000)	2,570 (previous year: 3,247)	12,534 (previous year: 6,821)

The financial assets and financial liabilities are broken down into the different classes of financial instruments in accordance with IAS 39 and IFRS 7. The valuation categories are also shown aggregated.

in KEuros	Category in accordance with IAS 39 and IFRS 7	Book value 30.09.2018	Fair value 30.09.2018	Book value 30.09.2017	Fair value 30.09.2017
Current assets					
Cash and cash equivalents	LaR	9,084	9,084	6,665	6,665
Future receivables from production orders	LaR	2,282	2,282	5,442	5,442
Trade receivables	LaR	41,667	41,667	37,450	37,450
Other assets	LaR	1,195	1,195	1,180	1,180
Non-current liabilties					
Financial liabilities	FLAC	12,400	12,400	-	-
Other non-current liabilities	FV	10,252	10,252	538	538
Current liabilities					
Current financial liabilities	FLAC	8,800	8,800	0	0
Trade liabilities	FLAC	10,911	10,911	11,475	11,475
Current other liabilities	FLAC	3,435	3,435	3,000	3,000
Current other liabilities	FV	6,529	6,529	574	574
Of which aggregated by valuation categories					
Loans and Receivables (LaR)		54,228	54,228	50,737	50,737
Financial liabilities at Fair Value through profit or loss (FV)		16,781	16,781	1,112	1,112
Financial Liabilities measured at Amortized Costs (FLAC)		35,546	35,546	14,475	14,475

All financial instruments in the categories LaR and FLAC were valued at amortized costs for the business year 2017/2018; the financial instruments in the category FV were measured affecting income at fair value.

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

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

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

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

	from interest	from subsequent valuation			from disposal	Net result
in KEuros		**Fair value**	**Currency translation**	**Allowances**		**2017/2018**
Loans and Receivables (LaR)	1 (previous year: 0)	0 (previous year: 0)	-203 (previous year: -225)	324 (previous year: -518)	-1,384 (previous year: -24)	-1,262 (previous year: -767)
Financial Liabilities Measured at Amortized Costs (FLAC)	-315 (previous year: 40)	-16 (previous year: 0)	0 (previous year: 0)	0 (previous year: 0)	0 (previous year: 0)	-331 (previous year: 40)
Financial liabilities at fair value through profit or loss (FV)	-1,008 (previous year: 0)	-1,141 (previous year: -99)	0 (previous year: 0)	0 (previous year: 0)	1,112 (previous year: 630)	-1,037 (previous year: 531)

The net gains or losses for loans and receivables include exchange rate differences, impairments, reversals, realized gains or losses on disposal, and subsequent receipts from written-down receivables.

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

Valuations are at fair value:

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

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

in KEuros	**2017/2018**	**2016/2017**
Opening balance	1,112	0
Total gains/losses	1,037	-529
- Of which recorded in the income statement	1,037	-529
- Of which recorded in other comprehensive income	0	0
Reclassifications	0	0
Additional acquisitions	14,632	1,641
Issues	0	0
Terminations	0	0
Transfer from stage 3	0	0
Final balance	**16,781**	**1,112**

The fair value of the aforementioned financial liabilities in stage 3 was determined in accordance with generally accepted valuation principles based on discounted cash-flow analyses. A key parameter is the discount rate which takes into account the default risk of the counterparties. The total losses recorded in the income statement during the business year include losses from the addition of earn-out liabilities amounting to 3,141 KEuros, gains from the release and adjustment of earn-out liabilities amounting to 2,155 KEuros and losses arising from the valuation of an interest swap amounting to 51 KEuros.

7.19.2 Derivative financial instruments and hedging relationships

The KPS group uses a derivative financial instrument in the form of an interest swap. Derivative financial instruments are only used to hedge existing underlying transactions and serve to reduce interest-rate risks.

In the context of company acquisitions, KPS AG took out a long-term loan amounting to 20 million euros. An interest swap amounting to 10 million euros was concluded to hedge the interest-rate risks. In view of the term of the interest swap over a number of years, the fair value depends on a number of factors including the future development of EURIBOR interest rates. The valuation is carried out on the basis of market data on the valuation date and using generally recognized valuation models. On the balance sheet date, the fair value amounts to -51 KEuros and this amount is recorded under other liabilities.

If the prerequisites for the application of special regulations on hedge accounting in accordance with IAS 39 are not met, the derivative financial instrument is recognized as a derivative without a hedging relationship. The resulting impacts on the income statement are shown in the table of net earnings from financial instruments.

7.19.3 Financial risk management

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

Liquidity risks
Credit risks / Default risks
Market price risks

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

Capital management is measured on the basis of net liquidity. The company management pursues the goal of achieving a continuous and sustainable increase in corporate value. The equity of the Group corresponds to the balance sheet equity. The ratio of the equity to the balance sheet total (equity ratio) amounts to 46.5 % as at 30 September (previous year: 64.3 %).

7.19.4 Liquidity risk

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

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

Business year	Book value	Payment obligations		
in KEuros	30.09.2018	2018/2019	2019/2020 to 2021/2022	2022/2023 ff.
Financial liabilities	8,800	8,800	0	0
Trade liabilities	10,911	10,911	0	0
Other liabilities	12,534	12,534	0	0
Liabilities from income tax	443	443	0	0

Previous year	Book value	Payment obligations		
in KEuros	30.09.2017	2017/2018	2018/2019 to 2020/2021	2021/2022 ff.
Financial liabilities	0	0	0	0
Trade liabilities	11,475	11,475	0	0
Other liabilities	6,821	6,821	0	0
Liabilities from income tax	788	788	0	0

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

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

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

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

30.09.2017 in KEuros	< 1 year	1-5 years	> 5 years
Interest swap	0	0	0
Total	0	0	0

7.19.5 Credit and default risks

KPS is exposed to a credit risk with the effect that the value of the assets could be impaired if customers or other debtors are unable to meet their obligations. The creditworthiness of individual customers or business partners with high order volumes is reviewed in order to minimize credit risks.

A risk concentration for major customers pursuant to IFRS 8.34 is determined. The open receivables arising from this amount to 8,393 (previous year: 10,914) KEuros.

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

Business year

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

Previous year

in KEuros	Neither overdue nor impaired	Overdue and not impaired	Impaired	30.09.2017
Future receivables from production orders	5,442	0	0	5,442
Trade receivables	30,490	6,412	548	37,450
Other assets	1,344	0	0	1,344
Total	37,276	6,412	548	44,236

Nominal amounts for receivables due of 436 (previous year: 1,304) KEuros are included in the impaired receivables which were impaired by 211 (previous year: 548) KEuros.

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

Business year

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

Previous year

in KEuros	less than 30 days	31 to 90 days	more than 90 days	30.09.2017
Other loans	0	0	0	0
Trade receivables	3,490	975	1,947	6,412
Other assets	0	0	0	0
	3,490	**975**	**1,947**	**6,412**

7.19.6 Market risks

>> Currency risks / Exchange rate risks

The companies of the KPS Group conduct their business transactions almost exclusively in euros, Danish krones, US dollars, and Swiss francs. Since the business year 2017/2018, business transactions have also been conducted in GBP. The business activities in GBP, US dollars and Swiss francs have so far only been of a limited nature. If the scope of business is extended there will consequently be exchange rate risks in future.

>> Interest risks

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

The interest risk in terms of a risk of change in market value is not regarded as relevant. The financial liabilities of the KPS Group are reported at amortized cost so that a possible change in market value is not reflected in the balance sheet.

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

7.20 Contingent liabilities and other financial obligations

7.20.1 Contingent liabilities

KPS Business Transformation GmbH, KPS Consulting GmbH & Co. KG and KPS Services GmbH have each given a maximum liability guarantee amounting to 2,000 KEuros for hedging current-account credit lines. KPS Services GmbH also has a further maximum liability guarantee amounting to 15,000 KEuros to hedge current-account credit lines. On the balance sheet date, current account liabilities amounted to 5,000 (previous year: 0) KEuros.

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

7.20.2 Financial liabilities

The following table shows the development of other financial liabilities:

Business year	**30.09.2018**				**30.09.2017**			
in KEuros	**less than 1 year**	**1-5 years**	**more than 5 years**	**Total**	**less than 1 year**	**1-5 years**	**more than 5 years**	**Total**
Vehicle leasing	1,143	1,009	0	2,152	1,086	996	0	2,082
Operating and business equipment leasing	678	487	0	1,165	807	944	0	1,751
Rent	2,996	8,054	15,084	26,134	1,162	854	0	2,016
Total	4,817	9,550	15,084	29,451	3,055	2,794	0	5,849

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

Payments from rental and leasing relationships, which were recorded in the reporting period as expenses, amount to 3,720 (previous year: 2,807) KEuros.

7.21 Risks to continuing existence as a going concern

The KPS consolidated financial statements were prepared for the business year 2017/2018 under the premise of the continuing existence of the company as a going concern. In this connection, the management is assuming a positive forecast for continuing as a going concern so that the Group can continue its business activities while complying with its payment obligations during the current and subsequent business years. Risks for the continuing existence of the KPS Group as a going concern are not identifiable at the present point in time.

8 EXPLANATIONS FOR THE CASH FLOW STATEMENT

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

The cash position analyzed in the cash flow statement comprises all the current liquid funds reported in the balance sheet after de duction of current bank liabilities as part of the liquid funds. At the end of the period under review, this cash position amounts to 4,084 (previous year: 6,665) KEuros. At the end of the period under review, current bank liabilities amounted to 3,800 (previous year: 0) KEuros, non-current bank liabilities amounted to 12,400 (previous year: 0) KEuros.

The decreased net liquidity compared with the previous year is primarily due to the acquisitions carried out during the business year and the associated cash outflows. The cash outflow on account of financial activity primarily results from the dividend payout in accordance with the resolution adopted by the Annual General Meeting held on 23 March 2018. The cash inflow relates to a loan to finance the acquisitions made during the course of the business year. The cash outflows for investments into long-term tied assets amounted to -24,882 (previous year: -12,393) KEuros. The increase in investment activity primarily results from the acquisition of Group companies, and development work amounting to 2,832 (previous year: 5,441) KEuros carried out.

8.1 Inflow/outflow from operating activities

The cash flow from operating activities increased by 1,060 KEuros to 17,847 KEuros compared with the previous year. This is due in particular to accounting for production orders whereby receivables from these orders fell back from 5,442 KEuros to 2,282 KEuros during the course of the business year.

8.2 Inflow/outflow from investment activities

The cash flow on account of investment activities decreased by 12,489 KEuros from -12,393 KEuros to -24,882 KEuros during the course of the business year. Apart from investments made in development work carried out on intangible assets developed in-house, payments were made for company acquisitions during the business year.

8.3 Inflow/outflow from financial activities

The increase in cash flow on account of financial activities by 15,132 KEuros to 2,791 KEuros results from the payment received from taking out a long-term financial loan in order to finance the acquisitions made in the course of the business year. In the previous year, cash flow from financial activities amounted to -12,341 KEuros.

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

			Cash			
in KEuros	**01.10.2017**	**Cash**	**Additions**	**Changes in valuation**	**Other**	**30.09.2018**
Acquisition price liabilities	1,560	-448	16,730	0	-1,112	16,730
Interest-bearing liabilities	0	16,200	0	0	0	16,200
Total	1,560	15,752	16,730	0	-1,112	32,930

On account of the first-time application of this reconciliation statement, disclosures from previous periods are not necessary.

9 OTHER EXPLANATIONS AND SUPPLEMENTARY INFORMATION

9.1 Auditor fees

Fees amounting to 173 (previous year: 110) KEuros for the services provided by the auditor Baker Tilly GmbH & Co. KG, Wirtschaftsprufungsgesellschaft, Munich, are recognized as expenses for services in connection with auditing the financial statements. The fees for services in relation to auditing the financial statements mainly comprise remuneration for auditing the consolidated financial statements and for auditing the financial statements of KPS AG and their domestic subsidiary companies. Fees for audit-related services or activities were only paid to Baker Tilly GmbH & Co. KG, Wirtschaftsprufungsgesellschaft, in the amounts indicated below.

Auditor fees

in KEuros	**2017/2018**	**2016/2017**
Services for auditing the financial statements	173	110
Other confirmation services	0	0
Tax consulting services	0	0
Other services	235	185
Total	408	295

9.2 Related parties

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

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

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

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

9.2.1 Existing shareholders of KPS Business Transformation GmbH

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

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

Dietmar Müller: 4,162,486 shares
(previous year: 7,822,286 shares); voting rights of approx. 11.13 % (previous year: approx. 20.91 %)

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

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

The total remuneration of existing shareholders on account of existing contracts of employment with Group companies amounts to 1,799 (previous year: 2,256) KEuros in the year under review.

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

9.2.2 Executive Board

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

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

The total compensation of the Executive Board reported as expenses amounted to 572 (previous year: 1,028) KEuros in the business year 2017/2018. Compensation is comprised of fixed and variable components and they are due in the short term.

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

9.2.3 Extended management circle

81 (previous year: 70) persons were members of the extended management circle on the balance sheet date.

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

Total compensation amounting to 19,093 (previous year: 16,910) KEuros was paid to the extended management circle for the past business year. This comprised compensation to the extended management circle with a significant shareholding in the amount of 1,227 (previous year: 1,228) KEuros and compensation to the members of the extended management circle with no significant shareholding in the amount of 17,866 (previous year: 15,682) KEuros.

A provision amounting to 2,249 (previous year: 1,547) KEuros was set aside to cover expenses for future defined benefit claims on account of the function of Vice President introduced in the business year 2012/2013 in respect of five persons of the extended management circle.

9.2.4 Supervisory Board

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

Mr. Tsifidaris and Mr. Grünewald have contracts of employment with KPS Business Transformation GmbH. The expenses for the business year 2017/2018 amounted to 1,227 (previous year: 1,228) KEuros and include fixed and variable compensation elements.

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

9.2.5 Other related persons

A contract of employment was in place with Ms Veronika König, daughter of Mr. Uwe Grünewald (Member of the Supervisory Board), in the business year. The expenses paid amounted to 96 (previous year: 87) KEuros.

9.3 Governance bodies of the company

9.3.1 Executive Board

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

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

9.3.2 Supervisory Board

The Supervisory Board is unchanged from the previous year and comprises

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

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

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

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

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

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

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

10 EVENTS AFTER THE BALANCE SHEET DATE

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

11 CORPORATE GOVERNANCE

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

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

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

13 GROUP RELATIONSHIPS / EXEMPTIONS PURSUANT TO ARTICLE 264 SECTION 3, ARTICLE 264B GERMAN COMMERCIAL CODE (HGB)

KPS AG, Unterföhring, draws up consolidated financial statements as the ultimate parent company as at 30 September 2018. These are in the German Federal Gazette (Bundesanzeiger).

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

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

Unterföhring, 23 January 2019

The Executive Board
Leonardo Musso

KPS Group

DEVELOPMENT OF THE FIXED ASSETS (GROSS PRESENTATION)

ITEM	ACQUISITION OR PRODUCTION COSTS				
in KEuros	01.10.2017	Additions	Additions from company mergers	Disposals	30.09.2018
I.) INTANGIBLE ASSETS					
1. Concessions, industrial property rights and similar rights and assets, and licenses in such rights and assets					
a.) if acquired	7,716	333	6,041*	201	13,889
b.) if internally generated	7,492	2,832	0	0	10,324
2. Advance payments received	47,243	30,318	0	0	77,561
Intangible assets	62,451	33,483	6,041	201	101,774
II.) PROPERTY, PLANT AND EQUIPMENT					
1. Business and office equipment	2,724	235	532	140	3,351
2. Low-value assets	0	37	15	14	38
Property, plant and equipment	2,724	272	547	154	3,389
Total assets	65,175	33,755	6,588	355	105,163

(*) includes customer relations and order backlog amounting to a total of 6,007 KEuros from purchase price allocation

ACCUMULATED DEPRECIATION					BOOK VALUE	
01.10.2017	Additions	Additions from company mergers	Disposals	30.09.2018	30.09.2018	30.09.2017
4,211	2,680	34	199	6,726	7,163	3,505
934	363	0	0	1,297	9,027	6,558
15,016	0	0	0	15,016	62,545	32,227
20,161	3,043	34	199	23,039	78,735	42,290
1,730	385	370	132	2,353	998	994
0	2	10	0	12	26	0
1,730	387	380	132	2,365	1,024	994
21,891	3,430	414	331	25,404	79,759	43,284

NOTIFICATIONS
pursuant to Article 160 Section. 1 No 8 Stock Corporation Law (AktG)

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

Statutory notifier	Date of the publication in accordance with Article 40 WpHG	Date the threshold was reached	Reason for the notification
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 %
Müller, Dietmar	17.10.2017	12.10.2017	Falling below the thresholds of 20, 15 %
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 von 75, 50, 30, 25, 20, 15 %
Tsifidaris, Michael	30.06.2017	28.06.2017	Falling below the threshold of 25 %
Krämerkämper, Dr. Thomas	30.01.2018	25.01.2018	Falling below the threshold of 3 %
Allianz SE	17.01.2018	21.12.2017	Voluntary Group notification on account of restructuring
Union Investment Privatfonds GmbH	18.09.2018	12.09.2018	Exceeding the threshold of 3 %

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

Voting shares in percent (in absolute voting rights)			
Art. 33 WpHG [1]	**Art. 34 WpHG [2]**	**Art. 38 WpHG [3]**	**Art. 39 WpHG [4]**
12.79 % (4,349,143)	–	–	12.79 %
10.46 % (3,912,486)	–	–	10.46 %
12.92 % (4,395,299)	–	–	12.92 %
24.27 % (9,080,050)	–	–	24.27 %
1.06 % (395,323)	–	–	1.06 %
–	6.68 % (2,500,000)	–	6.68 %
–	4.3 % (1,610,374)	0.39 % (144,435)	4.69 %

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

DECLARATION BY THE LEGAL REPRESENTATIVES

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

Unterföhring, 23 January 2019

The Executive Board

ALTERNATIVE PERFORMANCE MEASURES FOR THE KPS GROUP

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

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

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

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

Reconciliation calculation EBIT

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

EBIT margin is calculated from EBIT in relation to sales.

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

Reconciliation calculation EBITDA

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

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

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

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

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

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

Operating cash flow

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

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

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

Cash flow from financial activities

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

TRANSLATION OF THE INDEPENDENT AUDITOR'S REPORT

To KPS AG, Unterföhring

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

Audit opinion

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

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

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

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

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

Basis for our opinion

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

Key audit matters in the audit of the consolidated financial statements

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

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

- impairment of goodwill
- acquisition of the shares in ICE Consultants Europe S.L., Barcelona, Spain, Infront GmbH, Hamburg, and Envoy Digital Ltd., London, United Kingdom
- impairment of deferred tax assets

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

- Audit approach and findings
- Reference to further information

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

Impairment of goodwill

1. Goodwill amounting to EUR 62.5 million is recognized in the consolidated financial statements reported in the balance sheet under "goodwill" thus representing about 45 % of the balance sheet total. The company allocates the goodwill to the relevant groups of cash generating units (CGU). Goodwill is assessed for impairment annually at the balance sheet date or as required by the company ("impairment test"). Basically, determined value in use is compared there to the carrying amounts of the respective group of CGUs. The basis for these assessments is regularly the cash value of future estimated cash flows of the CGU, to which the respective goodwill is attributable. The assessments are based on the forecast figures of the individual CGUs, depending on the management's approved financial planning. The discounting is made by means of the weighted average cost of capital (WACC) of the individual CGU. The result of that assessment is highly dependent on the legal representatives' estimates of future cash flows as well as on the discounting interest rate adopted and therefore subject to significant uncertainties. Hence, we consider that issue as a matter of most significance within our audit.

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

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

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

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

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

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

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

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

Acquisition of the shares in ICE Consultants Europe S.L., Barcelona, Spain, Infront GmbH, Hamburg, and Envoy Digital Ltd., London, United Kingdom

1. During the course of the financial year 2017/2018, the company in each case purchased 100 % of the shares in ICE Consultants Europe S.L., Barcelona, Spain (ICE), Infront GmbH, Hamburg (Infront), and Envoy Digital Ltd., London, United Kingdom (Envoy). The purchase price allocation according to IFRS 3 and the first-time consolidation took place on 2 October 2017 (ICE), on 2 January 2018 (Infront) and on 9 February 2018 (Envoy). The cash purchase prices amounted to EUR 10.4 million (ICE), EUR 4.6 million (Infront) and EUR 6.0 million (Envoy). Furthermore, treasury shares with a value of EUR 1.9 million were transferred for the acquisition of shares in Infront and profit-related purchase price components (conditional purchase price conditions) were agreed for all the company acquisitions. Taking into account the fair values of the conditional considerations, total considerations amounted to EUR 16.5 million (ICE), EUR 11.2 million (Infront) and EUR 9.9 million (Envoy) on the respective date of first-time consolidation and acquired goodwill totaled EUR 12.2 million (ICE), EUR 10.2 million (Infront) and EUR 7.9 million (Envoy) respectively. Owing to the overall substantial financial impacts of the company acquisitions on the net assets, financial position, and results of operations of the company, and due to the complexity of obtaining valuations for the company acquisitions, these matters were of particular significance in our audit.

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

   - Inspection of the contractual agreements and obtaining of an understanding of the company acquisition as well as reconciliation of the purchase price paid as consideration for the shares obtained with the evidence presented to us of the payments made.

   - Assessment of the revaluation of assets and liabilities in the context of a purchase price allocation performed by an external expert regarding its usability.

   - Obtaining an understanding of the initial data on which the expert report is based and the assumptions made or used respectively.

   - Assessment of the opening balance sheet amounts and examination of the first-time consolidation on the first-time consolidation dates of 2 October 2017, 2 January 2018 and 9 February 2018 on the basis of the purchase price allocations.

As a result, our audit procedures did not lead to any reservations regarding the usability of the expert report. As a whole, we were able to ascertain by the audit procedures presented herein and subsequent ones that the acquisition of the business is sufficiently documented and appropriately presented.

3. The company's disclosures on the merger are included in item 5.1 of the Notes.

Impairment of deferred tax assets

1. KPS AG exhibits deferred tax assets totaling EUR 5.5 million in its consolidated financial statements under "deferred tax assets", thereof EUR 4.7 million deferred tax assets due to tax loss carryforwards.

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

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

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

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

- Evaluation of recognition and measurement of deferred taxes.

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

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

3. The company's disclosures on the deferred taxes are comprised in item 6.3 and 5.9 of the Notes.

Other information

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

- *Letter from the Executive Board, KPS: We are shaping the digital transformation and KPS on the capital market* in the section entitled "To the Shareholders" in the Annual Report 2017/2018,
- The Responsibility Statement in Section 7 of the Group Management Report 2017/2018,
- The Compliance Statement in Section 7 of the Group Management Report 2017/2018,
- Declaration by the Legal Representatives,
- Alternative performance indicators used in the KPS Group in the Annual Report 2017/2018.

The Supervisory Board is responsible for the following other information:

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

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

In connection with our audit, our responsibility is to read the other information, and, in doing so, consider whether the other information

- Is materially inconsistent with the consolidated financial statements, the group management report or our knowledge obtained in the audit, or
- Otherwise appears to be materially misstated.

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

The legal representatives and the Supervisory Board are responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the supplementary requirements of German law pursuant to § 315e (1) HGB, for the preparation of consolidated financial statements that give a true and fair view of the net assets, financial position and results of operations of the Group in compliance with these requirements. In addition, the legal representatives are responsible for such internal control as they determine necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting on a going concern basis, unless the management either intends to liquidate the Group or to cease operations, or has no realistic alternative to this course of action.

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and the group management report.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the group management report in order to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Article 10 of the EU Regulation

We were appointed as auditor of the consolidated financial statements by the Annual Shareholders' Meeting on 23 March 2018. We were engaged by the Supervisory Board on 17 September 2018. We have been the auditor of KPS AG without interruption since the audit of the consolidated statements for the financial year 2015/2016.

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

In addition to the audit of the consolidated financial statements for the Group, we provided the following services to the Group that are not disclosed in the consolidated financial statements or in the group management report:

- Financial and tax due diligence
- Support in the introduction of a Group Accounting Guideline in accordance with IFRS and a Reporting Package.

RESPONSIBLE AUDITOR

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

Munich, 24 January 2019

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

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

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