GROUP

ANNUAL REPORT

OVERVIEW OF THE CONSOLIDATED RESULTS

in million euros	2019/2020	2018/2019
Group sales	166.4	180.7
EBITDA	22.7	22.6
EBIT	14.1	18.8
Group earnings	8.1	12.2
Earnings per share (in euros)	0.22	0.33
Cash and cash equivalents	20.1	9.9
Financial liabilities	32.6	17.4

TO THE SHAREHOLDERS

THE CEO OF KPS

Ladies and Gentlemen, Dear Shareholders,

The coronavirus and the resulting economic, political, and social shock waves are continuing to keep the entire world on alert.

The past business year has also been defined for us – for the entire KPS Group, our employees, business partners, suppliers, and customers – by the necessity to overcome the consequences of these shock waves. The COVID-19 crisis presented us with unique, unusual and very specific challenges. And this was in a year when we wanted to celebrate – indeed exuberantly celebrate – the twentieth anniversary of the existence of our company.

We were all suddenly compelled to adjust, to restrict ourselves, and to learn to deal with new uncertainties. We rose to the challenges and successfully steered our company through this highly unusual situation with great confidence and passion.

At this point, I would like to extend a very big Thank You to our employees. Without your sustained discipline, your creative solutions, and without your renewed commitment every day it would have been virtually impossible to master this exceptional situation generated by the COVID-19 crisis. I would also like to offer my thanks to our customers, with whom we have collaborated to develop individual solutions in a collegiate approach and in an atmosphere of trust. Together we succeeded in adapting our way of working to the world of COVID-19.

How did we respond to the COVID-19 pandemic? Since the deterioration in the COVID-19 situation at the end of February 2020 and the classification as a pandemic on 12 March 2020 by the World Health Organization (WHO), our entire group of companies has been working in line with a package of measures specially tailored to this crisis.

Since the beginning of March, the majority of our consultants and advisors have been located in their home offices and they have been working remotely. Physical contacts with customers, suppliers, and business partners, along with business trips have been restricted to an absolute minimum. We transferred our processes, workflows, and organizational structures throughout the KPS Group quickly and almost seamlessly to the lockdown regulations and the social-distancing rules. As a consequence of these adjustments, we succeeded in transferring current projects efficiently to a remote mode. This placed our consultants in a position to supply our digitalization services to the customary standard of quality.

Alongside the conversion of work processess and the introduction of comprehensive protective measures, we placed a strong focus on the development of our costs, liquidity situation, and project monitoring.

In the process of mastering the challenges, we benefited from the strategic alignment and business model of KPS for delivering our transformation and digitalization solutions increasingly through digital channels or remotely. The crisis has demonstrated that our investments in innovations were visionary. Our business model proved its worth during the course of the past business year. This is reflected in our results. In the past business year 2019/2020, we generated sales amounting to 166.4 million euros, which was 7.9 % below the year-earlier value. Owing to the COVID-19 pandemic, some customers requested project breaks. Furthermore, the start of new projects was postponed in individual cases. We successfully continued to drive forward the internationalization of KPS. As a consequence, we achieved 49.8 % of our revenues outside Germany.

EBITDA of the KPS Group amounted to 22.7 million euros, although this can only be compared with the year-earlier value to a limited extent since the IFRS 16 standard was applied for the first time to preparing the financial statements, and this entailed a positive earnings effect.

In the previous business year, we were once more able to carry out some exciting projects and acquire new projects.

Our innovative force and quality as a specialist for transformation and digitalization consulting is once again highlighted by numerous awards. For Instance, in May 2020 we gained the SAP award to be among the top 3 partner out of 20,000 for the category customer experience. In June Compadia rated KPS as one of the most innovative companies in its Top 100 Innovation Competition. Our strategy expert at Infront received for the third time the award to be a Hidden Chamion for Digitalization and gained against reputed consultant companies.

In the new business year 2020/2021, the challenges continue to be high. We are unable to reliably assess the impact of the ongoing pandemic on the demand behavior of existing or potential customers in relation to our business situation. On the basis of data available when the report was prepared, the Executive Board estimates that sales in the business year 2020/2021 would be at the level of the previous year and the efficiency measures introduced should lead to a moderate increase of our EBITDA.

We believe that our group of companies is in an outstanding position for the future. The quality of our balance sheet continues to remain high with an equity ratio of 38.1 % and a robust liquidity position of 20.1 million euros. We are positioned outstandingly to take advantage of future opportunities with our three strategic mainstays of innovation, industrialization, and internationalization. The need for digitalization and transformation – our core competences – will continue to increase during the upcoming years.

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

Munich, January 2021

Your Executive Board

Leonardo Musso

THE SUPERVISORY BOARD OF KPS AG

Dear Shareholders,
The Supervisory Board provides information on its activity during the business year 2019/2020 in the following report. The report focuses in particular on the continuous dialog with the Executive Board, the main issues for consultation at the meetings of the Supervisory Board, and the audit of the annual and consolidated financial statements.

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

Fundamental and regular focus issues addressed by the Supervisory Board included a continuous review of the market and business development of the company and the various advisory segments, the rolling planning for company, finance and investment, the risk position, the risk controlling system of the company, and matters relating to the Executive Board. In particular, the crisis management and the steering of the appropriate task forces triggered by the coronavirus pandemic defined the past months. As the Chairman of the Supervisory Board, I should like to take this opportunity to thank all the Members of the Supervisory Board, the Chief Executive Officer, the managers, and not least the employees for successfully mastering this exceptional situation.

During the course of the business year 2019/2020, 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 deviations in business performance relate in particular to the measures for overcoming the coronavirus crisis. The Supervisory Board always had adequate opportunity to engage critically with the reports and resolution proposals of the Executive Board and to obtain appropriate assurance of the lawfulness, expediency, and fit and properness of the management of the business.

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

Alongside numerous informal meetings, telephone calls and video conferences, the Supervisory Board convened for a total of eight official meetings in the business year 2019/2020. At the Supervisory Board meetings held on 21 November 2019 and on 25 September 2020, the Members of the Supervisory Board and the Chief Executive Officer were present in person. All the other Supervisory Board meetings were held in the form of videoconferences for safety reasons.

During each of the meetings, developments during the previous periods and the current business situation were explained; the individual measures of the updated development with respect to the coronavirus and individual segments with negative deviations from planning were discussed in detail.

The meeting held on 21 November 2019 focused specifically on agreeing the results of the acquired subsidiary companies with the auditor. Furthermore, resolutions were passed on the merger of the subsidiary companies KPS Solutions GmbH and KPS Digital GmbH, the establishment of a KPS company in Stockholm (Sweden) and the closure of the KPS Consulting Inc. in Arlington (USA).

On 16 January 2020, the status of the activities relating to the annual financial statements for 2018/2019 were presented by the Executive Board and the auditors. The issues still open were discussed and prepared for the final annual financial statements.

On 23 January 2019, the Supervisory Board meeting for reviewing the annual financial statements for 2018/2019 took place. The documents submitted by the auditors relating to the annual financial statements were analyzed. The Supervisory Board was able to review the plausibility of the figures submitted on the basis of the members' individual expertise and their knowledge of the company. The documents presented to them enabled the board members to assess the situation of the company and to review any weaknesses. A decision was taken to approve the audited annual financial statements and the management report and therefore the adoption of the annual financial statements, and to approve the consolidated financial statements along with the Group Management Report.

In view of the business situation of the company, the outstanding quality of the bookkeeping, and the very thorough audit carried out by the auditor, the Supervisory Board refrained from carrying out any further audits, particularly since there were no indications that this was necessary. Furthermore, the report by the Supervisory Board for the business year 2018/2019 was adopted.

At the meeting of the Supervisory Board held in the form of a teleconference on 6 February 2020, decisions were taken on the agenda and the draft resolutions for the Annual General Meeting, formerly scheduled on 20 March 2020.

At the meeting held on 15 March 2020, the Supervisory Board once again came together for a meeting at short notice in order to discuss the dramatic development relating to the spread of the infection in our European markets and the resulting measures being introduced by governments and KPS AG. In this connection, it was decided to postpone the Annual General Meeting in the interests of the health of the corporate governance bodies and the shareholders.

At the Supervisory Board meeting held on 4 June 2020, the Executive Board informed the Supervisory Board about the half-year results and provided detailed information about the package of measures for KPS relating to the coronavirus. In concrete terms, an explanation was provided outlining the extent of the project cancellations and deferrals to a future date implemented by individual customers, and potential payment defaults by customers, and the impact on overall planning for the year as a whole. In order to safeguard the company, retention of liquidity and a strict cost regime were formulated as top-priority objectives during the crisis, alongside healthcare provision for all employees. A review was also carried out in order to ensure that the upcoming Annual General Meeting for the first time in virtual form was carried out in accordance with the new statutory regulations.

The next meeting of the Supervisory Board was held on 26 August 2020. At this meeting, implementation of the Annual General Meeting as a videoconference on 25 September 2020 was proposed by the Executive Board and a resolution on this matter was passed by the Supervisory Board. Furthermore, a decision was taken to safeguard the liquidity of the company and the dividend payout of 35 euro cents per share was reduced to 17 euro cents per share.

The last meeting of the Supervisory Board in the business year 2019/2020 was held on 25 September 2020 following the Annual General Meeting. The Executive Board provided information about the expected sales and the anticipated EBITDA, alongside the projected EBIT for the current business year. The Executive Board also presented the planning status for the business year 2020/2021. A resolutionabout the plannung was not yet passed on this matter. Another item related to the scope of outstanding receivables and the litigation proceedings instituted in this connection.

Self-eveluation:

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

Corporate Governance:

The requirements of the German Corporate Governance Code constituted another important matter. The Executive Board and the Supervisory Board decided to adopt the recommendations of the German Corporate Governance Code with several exceptions, which are related to the size of the company. The Executive Board and the Supervisory Board regard the Code as an important step toward transparency, corporate governance, and control. On 16 January 2020, the Supervisory Board devoted time to the regular discussion of the topic of corporate governance and passed a resolution on the new joint Declaration of Compliance of the Supervisory Board and the Executive Board pursuant to Article 161 Stock Corporation Law (AktG). This will be published permanently on the

Internet pages of the company together with the old Declaration of Compliance. One of the exceptions to the Corporate Governance Code includes the fact that the Supervisory Board does not form separate committees because of its size. The internal compliance issues within the Group were also the subject of the regular discussion and review at the meeting referred to.

Composition of the Supervisory Board:
During the entire business year 2019/2020, the following persons were Members of the Supervisory Board:

Mr. Michael Tsifidaris, Chairman

Mr. Hans-Werner Hartmann, Deputy Chairman

Mr. Uwe Grünewald

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

In the view of the Supervisory Board, an independent member of the shareholders on the Supervisory Board is appropriate pursuant to Recommendation C.6 of the German Corporate Governance Code, the independent representative of the shareholders on the Supervisory Board is Mr. Hans-Werner Hartmann.

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

Annual and consolidated financial statements for 2019/2020:
The auditing firm Baker Tilly GmbH & Co. KG Wirtschaftsprufungsgesellschaft, Munich, appointed as auditor of the annual financial statements and consolidated financial statements by the Annual General Meeting held on 25 September 2020, audited the bookkeeping, the annual financial statements of KPS AG, and the consolidated financial statements including the management reports for the business year 2019/2020 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 separate 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 21 January

2021 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 and the consolidated financial statements drawn up by the Executive Board including the management report on 15 January 2021. The annual financial statements of KPS AG are therefore adopted. The Report by the Supervisory Board for the business year 2019/2020 was also approved in the course of these deliberations. The proposal for the appropriation of the profit submitted and explained by the Executive Board was agreed by the Supervisory Board after it had carried out its own audit and taking into account the earnings performance and financial situation of the company. The Supervisory Board considers the proposed dividend to be appropriate.

The Supervisory Board would like to thank the Executive Board and all the employees of the Group for their exceptional commitment over the past business year, which was defined by the coronavirus pandemic.

Your Supervisory Board

Michael Tsifidaris

Chairman of the Supervisory Board

KPS IN THE CAPITAL MARKET 2019/2020

Price performance in the business year (1 October to 2019 to 30 September 2020)

The share of KPS AG posted a fall overall of 20.5 % in a stock-market environment defined by the COVID-19 pandemic during the business year 2019/2020. On 1 October 2019, the KPS share started trading at a price of 6.90 euros. On 11 December 2019, the share price rose sharply by 7.0 % from 6.86 euros to 7.34 euros and subsequently developed within the range of the benchmark indexes DAX and STOXX50 for a time. From 20 January 2020, the price of the KPS share was from time to time significantly above the value of the benchmark index until 13 March 2020. During this period, the share reached its high for the reporting period at 8.42 euros on 11 February 2020, before it followed the general market trend, lost significant value and reached the absolute low of 4.85 euros in the reporting period on 16 March 2020. Over the following months, the share price of KPS AG recovered and on 10 July 2020 achieved an interim high at 6.94 euros. At the end of the period, the price of the shares came down again and closed at a level of 5.48 euros on 30 September 2020.

The average daily trading volume of the KPS share on all German stock exchanges increased during the reporting period to around 14,045 no-par shares (previous year: 11,570 shares). On 30 September 2020, the market capitalization of KPS AG was 205.0 million euros on the basis of 37,412,100 shares in circulation.

Key data for the share

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

Overview of the share (Xetra, Intraday)

Opening price (1 October 2019)	6,90 Euro
High (11 February 2020)	8,42 Euro
Low (16 March 2020)	4,85 Euro
Closing price (30 September 2020)	5,48 Euro
Trading volume (1 October 2019 to 30 September 2020, average trading volume)	14045
Market capitalization (30 September 2020)	205,0 Mio. Euro

Shareholder structure

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

On 30 September 2020, the shareholder structure of KPS AG was as follows: The Chairman of the Supervisory Board, Michael Tsifidaris, holds 24.3 % of the shares in the company. Member of the Supervisory Board, Uwe 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 in future as anchor shareholders and members of the governance bodies.

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 with a current shareholding of 6.7 % 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.

Annual General Meeting relating to the business year 2018/2019

The ordinary Annual General Meeting of KPS AG on the performance of the business year 2018/2019 was held on 4 September 2020 as a virtual event. The virtual format was selected against the background of the physical distancing regulations in connection with the COVID-19 pandemic pursuant to Article 1 Section 5 of the Law on Measures in Corporate, Cooperative, Association, Foundation and Residential Property Law to Combat the Effects of the COVID-19 Pandemic (Gesetz über Maßnahmen im Gesellschaft-, Genossenschafts-, Vereins-, Stiftungs- und Wohneigentumsrecht zur Bekämpfung der Auswirkungen der COVID-19-Pandemie). The Annual General Meeting originally planned for March was postponed on the same statutory basis.

In the context of the economic uncertainties caused by the global pandemic, the shareholders approved the proposal by the governance body to strengthen the reserves of the company. 6,360,057 euros, or 0.17 euros per share, were paid to the shareholders out of the Group earnings of 12.2 million euros recognized in the Annual Report 2018/2019.

A dividend of 6.3 million euros corresponds to a payout rate of 52.2 % of Group earnings. A dividend return of 2.5 % was calculated for the last business year based on the opening price of 6.90 euros on 1 October 2019 taking account of the paid dividend of 0.17 euros per share. The total return (share price and dividend return) on the KPS share amounted to -18.1 % during the year under review.

Financial calendar

22.01.2021	Publication of the figures in the annual financial statements 2019/2020
12.02.2021	Publication of the figures for the 1st quarter 2020/2021
21.05.2021	Ordinary Annual General Meeting in Munich
28.05.2021	Publication of the figures for the half-year 2020/2021
23.07.2021	Publication of the figures for the third quarter 2020/2021

Analysts' research

The performance of the KPS share is continuously analyzed and evaluated by the leading banks M.M.Warburg, Berenberg, Hauck & Aufhäuser, and Quirin Privatbank.

In a study from July 2020, Hauck & Aufhäuser confirmed their price target of 11.00 euros. In June 2020, Berenberg recommended the share with a HOLD and a price target of 6.30 euros. In June 2020, Warburg Bank published a statement with the rating BUY and a price target of 8.50 euros.

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 2019/2020. The company published disclosures immediately to institutional investors, financial analysts, and private shareholders about current business development and important events for the share price development of the company.

Alongside publication of financial reports and press releases in German and English, the capital market communication of KPS also included teleconferences for analysts in order to publicize quarterly, half-yearly and annual figures. Furthermore, the management of KPS was also in regular personal dialog with market participants and is committed to go beyond its statutory obligations by carrying out further investor relations activities.

At the beginning of 2020, a roadshow was carried out in Frankfurt with the aim of having a personal dialog with investors extending beyond the scope of regular contacts. On 21 September 2020, the management were available to investors for a Q&A session at the Berenberg and Goldman Sachs Conference. Since March, other personal meetings have been carried out by phone or virtually in view of the social-distancing rules. Communication of this nature is a top priority for the Management of KPS and it intends to pursue these personal contacts with renewed vigor as soon as this becomes possible.

Hauck & Aufhäuser Bank acts as the designated sponsor for the preparation of binding bid and offer prices for appropriate liquidity, and ensures the corresponding tradability of the KPS share.

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

KPS GROUP

MANAGEMENT REPORT

1. FUNDAMENTALS OF THE GROUP

1.1 Business model and methodological expertise

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

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

A digitalization strategy means developing a strategy in order to achieve holistic digitalization for key company and business processes and to transform the system landscape of the company appropriately in accordance with the digitalization strategy developed. The challenges of the digital transformation of company processes form the core of the business model of KPS.

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

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

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

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

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

1.2 Strategy

The strategy of KPS is based on the three mainstays of internationalization, innovation, and industrialization.

In the business year 2019/2020, the international business activities remained at a high level. By comparison with the year-earlier period, the international contribution to sales in the business year 2019/2020 amounted to 82.9 million euros, corresponding to 49.8% of Group sales (year-earlier period: 77.0 million euros, 42.6% share in Group sales).

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

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

KPS benefited from its strategic positioning in overcoming the challenges of the COVID-19 crisis. As the severity of the COVID-19 pandemic increased, it enabled KPS to quickly move over to a remote mode, to facilitate employees working from their home office, and to continue to deliver KPS services in the customary quality to customers virtually without any interruptions using remote solutions.

1.3 Customer structure

Last year, the KPS Group further consolidated its position as a leading-edge management consulting firm for retail and the consumer goods industry, and in parallel vigorously expanded its competence in other sectors. We have a robust customer reference platform in the areas of fashion, food wholesale and retail, chemicals, pharmaceuticals, the furniture trade, sportswear, consumer goods, as well as the service sector and industry.

The customer portfolio also includes energy utilities and public-sector companies, as well as industrial businesses and engineering companies in B2B business. In addition, KPS has strongly internationalized its customer structure over recent years.

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

1.4 Consulting and service portfolio

The most innovative solution will be a crucial factor in outperforming the competition in the future. A digital transformation and omnichannel strategy across the company already now constitutes the enabler for successfully overcoming highly complex challenges.

A customized approach and business management in real time require a fundamental change in operational and cultural mindset across the entire organization. In the global market for consultancy and service packages, the implementation of digital business models with innovative IT technologies is therefore the supreme means of attaining cutting-edge performance.

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

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

1.5 Research and development

KPS invests in the area of research and development, and this is mainly directed toward improvements in the technical integration of different software platforms like SAP and Hybris. We regard ourselves as the market leader among management consultants for this integration process. KPS also invests in the development of new operating concepts for software applications.

Since the business year 2015/2016, intensive development work has been carried out on standardizing SAP processing streams. In the business year 2019/2020, 1.0 (previous year: 2.0) 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. Amortization amounted to 0.9 (previous year: 0.4) million euros.

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

1.6 Group structure and branch offices

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

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

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

During the year under review, KPS continued to strengthen its European alignment and market position.

1.7 Location and employees

KPS employees impress their customers through their expert knowledge and their exceptional performance and commitment. This is based on a high level of specialist qualification and continuous advanced training for all personnel. KPS also applies these standards when appointing new employees.

The key guiding principles are an optimum customer-centric approach, exceptional performance and commit¬ment, safeguarding and improvement of the KPS quality standards, and a positive working environment.

The high level of motivation and the outstanding qualifications and skills of the employees of the KPS Group have empowered a rapid and virtually seamless conversion of the processes to remote working and home office as a response to the COVID-19 crisis.

On 30 September 2020, the KPS Group employed a total of 619 employees (previous year: 618). The number of employees therefore remained virtually unchanged in the business year 2019/2020 by comparison with the previous year 2018/2019. In Germany, KPS has 447 (previous year: 448) employees. This is equivalent to a share of 72.2 % (previous year: 72.5 %) in the Group as a whole.

In the business year 2019/2020, personnel expenses amounted to 67.5 million euros and they were therefore virtually at the same level of the previous year (66.4 million euros)

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

Employees of the KPS Group

	30.09.2020	30.09.2019	Change
Employees by region			
Germany	447	448	-1
Spain	81	89	-8
United Kingdom	54	48	6
Denmark	18	20	-2
Switzerland	4	7	-3
Austria	5	4	1
Netherland	3	2	1
Norway	4	0	4
Sweden	3	0	3
Total	619	618	1
Employees by function			
Executive Board	1	1	0
Managing Directions	14	15	-1
Consultans	516	519	-3
Administration	85	82	3
Apprentices	3	1	2
Total	619	618	1

Alongside the Managing Directors listed above, the Member of the Executive Board of KPS AG, Mr. Leonardo Musso, also holds posts as a Managing Director (in a total of 15 additional companies). From 30 September 2020, 15 persons were therefore employed as Managing Directors in the KPS Group.

1.8 Group controlling system

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

As part of the package of measures introduced by the KPS Management System in response to the COVID-19 pandemic, the controlling system was temporarily expanded by project-related, liquidity-related and expense-related indicators.

2. BUSINESS REPORT OF THE KPS GROUP

2.1 Macroeconomic development

2.1.1 Development of the global economy

The coronavirus pandemic exacerbated by the effects of already increasingly sluggish economic growth

Following two years of upward movement, global economic growth recorded a tangible downturn in dynamic performance in 2019.

After 3.8 % in 2017[1] and 3.6 % in 2018[2], global gross domestic product only increased by 2.8 % according to the International Monetary Fund (IMF).[3] Key factors in this development were the trade disputes pursued by the USA with China and the EU, along with the growing uncertainties relating to the geopolitical situation. Another issue related to the slowdown of growth in Europe against the background of Brexit.[4]

The Kiel Institute for the World Economy (IfW) predicts a decline in global domestic product (GDP) of 3.6 % for the year 2020 as a result of the coronavirus pandemic and the far-reaching containment measures.[5] The IMF is even more pessimistic and anticipates a decline of 4.4 %.[6]

2.1.2 Development in Europe

Public programs and fiscal policy reduce the consequences of the pandemic

According to the experts at the IfW Kiel, growth within the Monetary Union had already been easing off since the middle of 2018. This was primarily due to weaker momentum from the international environment and as a consequence of domestic economic factors such as the ailing automobile industry.[7]

In 2020, the far-reaching measures designed to contain the coronavirus pandemic led to the biggest collapse in economic activities since the foundation of the Monetary Union. After a historic drop of 15 % in GDP was recorded in the first half of 2020, the Kiel Institute of the World Economy (IfW) is forecasting a collapse in economic output of 7.1 % in the eurozone over the entirety of 2020.[8] However, in light of the highly dynamic rate of infection in some member countries, there remains great uncertainty relating to the further development of the pandemic in spite of what was latterly the very significant recovery. The subsequent and downstream implications of the drastic losses in sales and income resulting from the trajectory of the crisis so far are at risk of only gradually becoming perceptible.

According to the IMF, the unparalleled and multifaceted response of governments were the primary reason for preventing the crisis exerting even

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[1] https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019
[2] https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019
[3] https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020
[4] https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020
[5] https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2020/erholung-vom-corona-schock-bleibt-vorerst-unvollstaendig-15064/
[6] https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020
[7] https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2019/euroraum-robuste-expansion-aber-mit-wenig-schwung-0/
[8] https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2020/muehsam-zurueck-zur-normalitaet-15065/

more deleterious effects in Europe. These include the comprehensive fiscal packages deployed throughout Europe directed toward supporting households and enterprises, and the measures introduced by central banks to relax monetary policy, which supported the flow of credit and prevented greater turbulence in the financial markets. The EU also relaxed existing rules in order to take account of rising budgetary deficits and mobilized supranational resources in order to finance new institutions to combat the coronavirus pandemic and complement the national fiscal policy of the member states.[9]

2.1.3 Development in Germany

Decline in economic output as a result of the coronavirus pandemic
After the economic growth rate in Germany was still 1.3 % and 0.6 %[10] in 2018 and 2019 respectively, the leading German economic research institutes jointly predict a decline in production of 5.4 % on account of the coronavirus pandemic (-6.0 % according to the IMF).[11][12] This is a downward correction by the economic experts to their spring forecasts on the basis of the latest data. While the decline in value added was rather accurately forecast for the first half of the year, the experts are assuming a rather slower recovery in the second half of the year.

The internal market and export trade were significantly impacted by the coronavirus pandemic. The global recession exerted a negative impact on the exports that are all-important for Germany. Industry in Germany was already laboring under a downturn but it suffered further significant impact from the containment measures such as company closures. The renewed lockdown introduced in November 2020 meant that certain sectors such as hospitality and tourism remained in a deep-seated crisis without any prospect of recovery in the near future. The experts also believed it was likely that companies would initially hold back on investments owing to the unpredictability of the pandemic's trajectory.[13]

2.2 Sector-specific framework conditions

[9] https://www.imf.org/en/Publications/REO/EU/Issues/2020/10/19/REO-EUR-1021

[10] Erholung verliert an Fahrt – Wirtschaft und Politik weiter im Zeichen der Pandemie, Gemeinschaftsdiagnose 2-2020, Projektgruppe Gemeinschaftsdiagnose [Recovery loses Momentum – Business and Policymakers continue to be driven by the Pandemic, Joint Diagnosis 2-2020, Project Group Joint Diagnosis], October 2020, http://gemeinschaftsdiagnose.de/wp-content/uploads/2020/11/GD_H20_Langfassung_online.pdf
[11] https://www.imf.org/en/Countries/DEU
[12] Erholung verliert an Fahrt – Wirtschaft und Politik weiter im Zeichen der Pandemie, Gemeinschaftsdiagnose 2-2020, Projektgruppe Gemeinschaftsdiagnose [Recovery loses Momentum – Business and Policymakers continue to be driven by the Pandemic, Joint Diagnosis 2-2020, Project Group Joint Diagnosis], October 2020, http://gemeinschaftsdiagnose.de/wp-content/uploads/2020/11/GD_H20_Langfassung_online.pdf
[13] Erholung verliert an Fahrt – Wirtschaft und Politik weiter im Zeichen der Pandemie, Gemeinschaftsdiagnose 2-2020, Projektgruppe Gemeinschaftsdiagnose [Recovery loses Momentum – Business and Policymakers continue to be driven by the Pandemic, Joint Diagnosis 2-2020, Project Group Joint Diagnosis], October 2020, http://gemeinschaftsdiagnose.de/wp-content/uploads/2020/11/GD_H20_Langfassung_online.pdf

2.2.1 COVID-19 Pandemic leads to non-uniform development in the consulting sector

Cautious optimism in times of crisis

According to the Federal Association of Management Consultants (BDU), sales in the consulting sector in Germany rose by 7.2 % to 33.8 billion euros in 2018, whereas growth in the sector came down by 5.7 % in 2019 with total sales of 35.7 billion euros. Actual sales therefore fell somewhat short of the forecast of around 7 %.[14] This is primarily due to various uncertainties about the macroeconomic development. For example, German industry is particularly impacted by global trade conflicts and new investments were deferred. This exerted a correspondingly negative impact on the demand for consulting services.[15]

According to the BDU, one third of market participants are assuming an overall decline in sales of at least 30 % for the calendar year 2020. This yields a forecast in the range between -5 % and -10 % for the market as a whole. The BDU is assuming that the overall market level reached at the end of 2019 will not be attained again until 2022.[16]

According to the BDU, the Business Climate Index for the consulting sector rose for the fourth time in succession in December 2020 and has now returned to 94.5 points after 91.9 points in September. However, development within the sector has been very uneven. While the large consulting firms were remarkably successful in negotiating the challenges of the pandemic, a number of smaller consultancy firms are actually battling for survival. Around one third of the market players describe the current business situation as good, while at the same time 27 % voice misgivings about a bad business situation. 41 % of the major consulting firms report a good business situation with only every tenth market participant being below budget. In the case of the smaller consulting firms with annual sales of less than 250,000 euros, business is going badly for around half of them.[17] Firms providing advice primarily to companies in sectors that are particularly hard hit by the pandemic are currently finding it extremely difficult to acquire new projects.

IT consultants are recording the biggest upswing in sentiment. The Business Climate Index here rose from 4.0 in September to the current value of 15.0. A key factor for this is the requirement in companies for digitalization, which has been further ratcheted up as a result of the coronavirus pandemic.

2.2.2 Positioning of the KPS Group

The coronavirus pandemic has accelerated the onward march of digitalization in many sectors. These specifically include the sectors relevant for the KPS Group such as stationary retailing. Complexity and the increasingly short-term nature of business are also accelerating the necessity for customers to undergo digital transformation and therefore generate the requirement for specialist consulting.

High inputs for resources such as personnel, know-how, and funds will be required in order to successfully meet the burgeoning pressure for innovation.

[14] https://www.bdu.de/der-bdu/unsere-branche/consultingwirtschaft-deutschland/
[15] https://www.bdu.de/media/353812/geschaeftsklima_q2-2019.pdf
[16]https://www.bdu.de/news/consultingmarkt-entwickelt-sich-je-nach-unternehmensgroesse-oder-branchenfokussierung-sehr-uneinheitlich/
[17]https://www.bdu.de/news/consultingmarkt-entwickelt-sich-je-nach-unternehmensgroesse-oder-branchenfokussierung-sehr-uneinheitlich/

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 solutions enable successes to be achieved quickly and sustainably. Consulting firms like the KPS Group 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.

The sector ranking of market researchers at Lünendonk & Hossenfelder once again positions KPS among the Top 10 for German management consultancy companies in 2020.[18] Furthermore, the study published by Lünendonk & Hossenfelder on the German consulting market also highlights the outstanding positioning of KPS. The market researchers observe that customers are defining increasingly high requirements for consulting firms in relation to the end-to-end offering and know-how regarding digitalization.[19]

2.3 Business performance

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

Sales development

In the business year 2019/2020, the KPS Group achieved sales in the amount of 166.4 million euros, which is equivalent to a fall of -7.9% compared to the year-earlier period.

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

The outbreak of the COVID-19 pandemic and the associated lockdown and social-distancing measures resulted in increasing uncertainty among a number of existing customers and potential new customers. As a consequence, KPS was requested to institute project breaks and project deferrals. KPS worked out individual and flexible solutions with customers in order to overcome the impacts of the COVID-19 pandemic in close cooperation with customers.

During the year under review, projects with a major customer continued to be in a transition phase. Sales with this customer therefore declined by 12.3 million euros and amounted to 16.6 (previous year: 28.9) million euros in the past business year 2019/2020.

Business performance and sales by segments and regions

In the strategically most important segment Management Consulting and Transformation Consulting, 92.2 % (previous year: 94.2 %) was generated. 0.7 % (previous year: 1.1 %) of sales were generated in the segment System Integration,

[18] Lünendonk, Lünendonk List 2020, 20 May 2020, https://www.luenendonk.de/produkte/listen/luenendonk-liste-2020-managementberatungs-unternehmen-in-deutschland/

[19] https://www.consulting.de/nachrichten/alle-nachrichten/consulting/q-perior-ueberholt-erstmals-detecon-und-horvath/

while 7.0 % (previous year: 4.7 %) of sales originate from business with products and licenses.

In spite of the negative impacts resulting from the COVID-19 pandemic, KPS succeeded in expanding its international business activities during the period under review.

Sales generated abroad rose by 7.7 % to 82.8 (previous year: 77.0) million euros in the business year 2019/2020. This meant that the sales contribution from our foreign activities was 49.8 % (previous year: 42.6 %). Over the same period, in Germany sales in the business year 2019/2020 fell back to 83.6 (previous year: 103.7) million euros.

The breakdown of revenues in the reporting period by regions yields the following picture for the business year 2019/2020: Germany continued to be the primary sales mainstay with 82.8 (previous year: 103.7) million euros or 50.2 % (previous year: 57.4 %), followed by Scandinavia with a volume of 37.6 (previous year: 40.8) million euros or a share of total sales amounting to 22.6 % (previous year: 22.6 %). In Spain, sales of 8.8 (previous year: 12.3) million euros were generated. In the BE-NE-LUX region, KPS achieved sales of 15.2 (previous year: 10.0) million euros or 9.1 % (previous year: 6.8 %) of Group sales. In the United Kingdom, sales generated during the reporting period amounted to 12.5 (previous year: 9.7) million euros or 7.5 % (previous year: 5.4 %) and in Switzerland sales were 8.3 (previous year: 3.1) million euros or 5.0 % (previous year: 1.7 %) of the sales of the KPS Group.

EBITDA and EBIT development

In the reporting period 2019/2020, EBITDA was 22.7 million euros and is therefore almost equivalent to the value of the comparative period 2018/2019 (22.6 million euros). However, EBITDA of the business year under review can only be compared with EBITDA of the previous business year 2018/2019 to a certain extent since IFRS 16 ("Leasing") was applied for the first time in 2019/2020 and this entailed a one-off positive extraordinary effect in the amount of 5.3 million euros.

At the level of EBIT, the positive effect from first-time application of IFRS 16 ("Leasing") was almost entirely neutralized through the corresponding depreciation and amortization to be formed on capitalized leasing rights-of-use.

In the reporting period 2019/2020, KPS generated EBIT in the amount of 14.1 million euros (margin: 8.5 %) and was therefore below the value of the year-earlier period in the amount of 18.8 million euros (margin: 10.4%). EBIT was influenced negatively primarily by the fall in sales. The drop in sales was partly compensated by declining costs of materials (2019/2020: 58.4 million euros; 2018/19: 62.7 million euros) and decreasing other operating expenses (2019/2020: 20.3 million euros, 2018/2019: 32.1 million euros). It should be noted that the one-off positive IFRS 16 ("Leasing") effect is included in the item other operating expenses.

2.4 Results of operations, capital structure and asset situation

Overview of results of operations, capital structure and asset situation

in Mio. Euro	2020/2019	2019/2018
Group sales	166.4	180.7
EBITDA	22.7	22.6
EBIT	14.1	18.8
Group earnings	8.1	12.2
Earnings per share (in euros)	0.22	0.33
Liquid funds	20.1	9.9
Financial liabilities	32.6	17.4

1.2.1 Results of operations of the KPS Group

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

The business year 2019/20 was defined by the impacts, influences and handling of the COVID-19 pandemic.

At the end of February 2020, KPS introduced a far-reaching and comprehensive package of measures throughout the Group as a response to the start of the COVID-19 pandemic and the associated social-distancing and lockdown rules. The top priority was protection of the employees, suppliers, service providers and business partners of KPS. Almost all the employees were redeployed to their home office and the work processes were converted to remote mode. The KPS Group benefited from its strategic alignment for delivering its digitalization and transformation services increasingly by remote means. Already at the outbreak of the pandemic, therefore, the employees were very well equipped with modern communication tools, laptops, and appropriate software. Overall, KPS was able to transfer current projects to remote mode quickly and virtually seamlessly and continue delivering service offerings to customers without interruption.

Owing to the consequences of the COVID-19 pandemic, customers requested project breaks or project deferrals in some cases. Furthermore, the start of new projects was postponed in individual cases.

The revenues of the KPS Group were correspondingly 7.9 % lower at 166.4 million euros during the period under review as compared with the year-earlier period (180.7 million euros).

The operating result before depreciation and amortization (EBITDA) was virtually unchanged at 22.7 million euros (previous year: 22.6 million euros) during the period under review. EBITDA in the reporting period is only comparable with the year-earlier period to a limited extent, since IFRS 16 ("Leasing") was applied for the first time in the business year 2019/2020. The first-time application of IFRS 16 entailed a one-off positive effect in the amount of 5.3 million euros.

EBIT was reduced by 25.0 % to 14.1 (previous year: 18.8) million euros in the period under review. At the level of EBIT, the one-off effect from IFRS 16 was almost entirely compensated because the positive effect in EBITDA was almost entirely neutralized at EBIT level through the depreciation and amortization of capitalized leasing rights-of-use.

Overview of the income statement

in KEuros	2019/2020	2018/2019
Revenues	166,446	180,656
Own work capitalized	1,412	2,450
Other operating income	961	615
Cost of materials	-58,381	-62,678
Personnel expenses	-67,455	-66,410
Other operating expenses	-20,307	-32,083
Operating result before depreciation and amortization (EBITDA)	22,675	22,550
Depreciation and amortization (M&A adjusted)	-7,276	-1,414
Operating result (EBIT) adjusted	15,400	21,136
Amortization and depreciation (M&A related)	-1,294	-2,333
Operating result (EBIT)	14,106	18,803
Financial result	-1,836	-876
Earnings before income taxes*	12,270	17,928
Income tax	-4,127	-5,735
Earnings after income taxes	8,143	12,193

* corresponds to the result from ordinary business activities

Revenues

As already elucidated at the beginning of the section, revenues were reduced in comparison with the previous year by 7.9 % to 166.4 (previous year: 180.7) million euros mainly as a result of the negative effects in connection with negotiating the COVID-19 pandemic. It should be noted here that on 27 April 2020, KPS withdrew the sales forecast in the amount of 181-191 million euros for the business year 2019/2020 published in the Annual Report 2018/2019. At that point, the Executive Board of KPS was no longer able to reliably assess the impact of the continuing COVID-19 pandemic on the economic position of the existing and potential customers of the KPS Group and on their demand behavior.

Own work capitalized

Own work capitalized amounted to 1.4 (previous year: 2.4) million euros over the course of the business year 2019/2020. This essentially relates to intangible assets developed in-house (development costs) for SAP process streams and internally generated software.

The total amount of development expenses incurred in the business year 2019/2020 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.

The other operating income increased by 56.3 % to 1.0 (previous year: 0.6) million euros in the period under review.

Cost of materials

The cost of materials fell back by 6.9 % or 4.3 million euros to 58.4 (previous year: 62.7) million euros during the period under review. The cost of materials ratio (cost of materials as a ratio of revenues) amounted to 35.1 % (previous year: 34.7 %).

In response to the COVID-19 pandemic, KPS was able to reduce the project-related cost of materials, which essentially comprised the costs for subcontracted services, by 11.8 % or by 7.2 million euros to 53.4 (previous year: 60.5) million euros.

The expenses for purchased hardware and software increased by 2.9 million euros to 5.0 (previous year: 2.1) million euros in the year under review. The demand for hardware and software increased in the framework of rolling out projects.

Personnel expenses

In the reporting period 2019/2020, personnel expenses amounted to 67.4 million euros and were therefore slightly higher by comparison with the year-earlier period (66.4 million euros).

At the end of the business year 2019/2020, the KPS Group had a workforce of 619 employees. The number of employees was therefore at the level of the previous year (618).

The personnel expense ratio (personnel expenses in relation to revenues) increased to 40.5 % (previous year: 36.8 %) owing to the declining revenues during the period under review.

Other operating expenses

Other operating expenses came down by 36.7 % to 20.3 (previous year: 32.1) million euros compared with the equivalent year-earlier period. They mainly include travel expenses, non-project-related subcontracted services and operating costs.

During the period under review, other operating expenses were positively influenced by first-time application of IFRS 16 ("Leasing") in the amount of 5.3 million euros. Correspondingly, other operating expenses would have amounted to 25.6 million euros without application of IFRS 16.

Owing to the COVID-19 pandemic and the associated measures taken by KPS to protect employees, customers, suppliers, and service providers, travel expenses were reduced by 45.7 % to 4.4 (previous year: 8.0) million euros during the period under review. Furthermore, the expenses for provisions formed in connection with potential future earn-out payments amounted to 1.3 million euros compared with the amount for the equivalent year-earlier period of 4.8 million euros.

Depreciation and amortization

The depreciation and amortization (depreciation on tangible assets and M&A-related amortization) increased from 3.7 million euros in the equivalent year-earlier period to 8.6 million euros in the period under review.

This includes the effects from first-time application of IFRS 16 ("Leasing") in the amount of 5.0 million euros. The M&A-related depreciation and amortization amounted to 1.3 (previous year: 2.3) million euros.

Financial result

The financial result of the Group amounts to -1.8 (previous year: -0.9) million euros. The negative financial result essentially comes from interest expenses for bank loans and compounding of the earn-out liabilities arising in connection with the acquisition of Infront Consulting & Management GmbH, KPS Digital Limited and ICE Consultants Europe S.L.

Income taxes

Taxes on income and earnings amounting to 4.1 (previous year: 5.7) million euros primarily include current expenses for corporate income tax, solidarity surcharge, and trade tax.

Earnings after income taxes

The consolidated income from the period under review amounted to 8.1 (previous year: 12.2) million euros.

2.2.1 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.

As in the previous sections, financial figures relating to capital structure are primarily presented in the unit of million euros. The change in a financial figure in percent and the ratio for two financial figures is calculated on the basis of KEuros so as to retain comparability and ensure that rounding differences does not lead to differing results.

Development of equity

The share in equity attributable to shareholders of KPS increased by 2.1 million euros compared with the previous year and amounted to 66.3 million euros (previous year: 64.2) million euros on 30 September 2020.

The equity ratio came down from 45.2 % to 38.1 % compared with the balance sheet date in the previous year. This is due to a change in the balance sheet structure. In the period under review, IFRS 16 ("Leasing") was applied for the first time. As a result of this, non-current leasing liabilities of 24.1 million euros (previous year: 0 euros) and current leasing liabilities of 4.6 million euros (previous year: 0 euros) had to be capitalized for the first time. Overall, the balance sheet total increased from 142.3 million euros in the business year 2018/2019 to 174.0 million euros on the balance sheet date 30 September 2020.

The main driver for this was the first-time obligation to capitalize leasing liabilities.

Development of liabilities
In the period under review, non-current liabilities increased from 24.1 million euros (balance sheet date 30 September 2019) to 43.9 million euros (balance sheet date 30 September 2020). The main factor for the change in non-current liabilities was the effect arising from first-time application of IFRS 16 ("Leasing") explained above in the section Development of Equity.

On the balance sheet date 30 September 2020, non-current liabilities are mainly comprised of non-current leasing liabilities (24.1 million euros) and non-current financial liabilities (9.3 million euros, previous year: 8.6 million euros).

An increase in current liabilities by 9.9 million euros to 63.9 (previous year: 53.9) million euros was posted by comparison with the balance sheet date for the previous year.

Current financial liabilities increased by 14.5 million euros on the balance sheet date 30 September 2020 compared with the year-earlier balance sheet date 30 September 2019. The change essentially results from taking out short-term money-market loans to secure liquidity.

The other current liabilities fell back by 1.8 million euros to 15.4 (previous year: 17.2) million euros.

Trade liabilities have been reduced by 3.5 million to 7.0 million euros. The fall is due to effects arising from the balance sheet data and to the reduction in sourcing of subcontracted services.

Furthermore, In connection with the first-time adaption of IFRS 16, short-term lease liabilities In the amount of 4.6 million euro were capitalised.

Development of liquidity
Over the past business year, the management of KPS focused in particular on strengthening and safeguarding liquidity against the background of the high level of uncertainties derived from the COVID-19 pandemic.

Liquidity planning is continually adjusted and monitored. Since the outbreak of the COVID-19 pandemic, monitoring of liquidity has been further strengthened and expanded.

On 30 September 2020, the KPS Group had liquid funds (cash and cash equivalents) in the amount of 20.1 (previous year: 9.9) million euros.

On the balance sheet date, total liabilities to banks amounted to 32.6 (previous year: 17.4) million euros. The increase primarily results from taking out additional short-term bank loans amounting to 14.5 million euros.

Cash flow from current business activities amounted to 22.0 million euros in the current business year 2019/2020 and 24.0 million euros in the previous year 2018/2020.

Cash flow from investment activities amounted to -14.8 (previous year: 5.9) million euros and relates to the investments initiated in fixed assets and other purchase price payments for company acquisitions made. In the business year 2019/2020, the purchase price payments for ICE, Infront and Envoy were due in the amount of 11.4 million euros (previous year: 2.5 million euros for ICE and Envoy).

Investments in property, plant and equipment increased by 1.2 million euros to 1.9 million euros and investments in intangible assets fell by 1.2 million euros to 1.5 million euros during the period under review.

Cash flow from financial activities amounted to 3.1 (previous year: -17.2) million euros in the previous year.

On 30 September 2020, the KPS Group had undrawn credit lines of 16 million euros.

3.2.1 Net assets

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

in KEuros	2019/2020	2018/2019
Non-current assets	112,565	84,653
Current assets	61,444	57,606
Total assets	174,009	142,259
Shareholders' equity	66,277	64,241
Non-current liabilities	43,850	24,077
Current liabilities	63,882	53,941
Total liabilities	107,732	78,018
Total shareholders' equity and liabilities	174,009	142,259

The KPS Group has a term-congruent balance sheet structure.

The rise in the balance sheet total by 31.7 million euros from 142.3 million euros (balance sheet date 30 September 2019) to 174.0 million euros (balance sheet date 30 September 2020) is mainly due to first-time application of IFRS 16 ("Leasing") and to the increase in non-current financial liabilities and hence to liquid funds.

First-time application of IFRS 16 resulted in capitalized rights-of-use arising from leasing agreements in the amount of 29.0 million euros (30.09.2020). Cash and cash equivalents (liquid funds) increased by 10.3 million euros to 20.1 million euros on the balance-sheet date 30 September 2020 (30.09.2019: 9.9 million euros).

Development of assets
The assets tied up in long-term assets amount to 112.6 (previous year: 84.6) million euros on the balance sheet date for the period under review.

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

14.1 (previous year: 15.7) million euros in the period under review. As a result of the first-time application of IFRS 16, rights-of-use from leasing agreements were capitalized in the amount of 29.0 million euros for the first time.

During the year under review, 1.9 (previous year: 3.9) million euros were invested in property, plant and equipment. This was offset by depreciation on property, plant and equipment in the amount of 0.9 million euros. Hence, property, plant and equipment amounted to 2.7 million euros (previous year: 1.7 million euros).

As of 30.09.2020 investment obligations in the amount of 10.9 million euros were accounted for conditional purchase price obligations.

Capitalized deferred taxes amount to 4.2 (previous year: 4.8) million euros.

Current assets increased slightly by 3.8 million euros to 61.4 million euros on the balance sheet date 30 September 2020.

Trade receivables went down by 10.6 million euros to 30.1 million euros on the balance sheet date 30 September 2020. The fall is mainly due the reduced scope of business during the period under review.

On the balance sheet date 30 September 2020, the KPS Group had cash and cash equivalents in the amount of 20.1 million euros. This corresponds to a rise of 10.3 million euros compared with the year-earlier date.

2.4.1 Appropriation of profits

Earnings after income taxes amounted to 8.1 (previous year: 12.2) million euros.

Owing to the COVID-19 pandemic, the Annual General Meeting of KPS for the business year 2019/2020 was held on 25 September 2020. A resolution was passed to pay a dividend in the amount of 0.17 euros. This corresponds to a total payout of 6.4 million euros and a payout ratio of 52.5 %.

This dividend proposal takes account of the profitability of KPS and the challenges and uncertainties associated with overcoming the COVID-19 pandemic.

2.5 Results of operations, financial position, and asset situation of KPS AG

4.2.1 Results of operations

In the business year 2019/2020, the business activity of KPS AG comprised the functions of a holding company, as was the case in the previous year. Within this framework, management, monitoring and administrative activities, as well as controlling and finance were carried out for the operating units of the KPS Group. As in the previous year, the costs incurred at KPS AG were allocated to the subsidiary companies by way of a Group allocation with a risk and profit surcharge of 15 %.

During the year under review, personnel expenses amount to 4,533 (previous year: 4,579) KEuros. In the business year 2019/2020, an average of 65 (previous year: 62) employees were employed at KPS AG.

The scheduled amortization and depreciation on intangible fixed assets and on property, plant and equipment in the year under review amount to 431 (previous year: 337) KEuros. Furthermore, unscheduled depreciation and amortization on carrying amounts for participations relating to KPS digital GmbH and KPS Business Transformation GmbH were recorded in the amount of 20,120 (previous year 0) KEuros, since projects are being carried out in other KPS companies with particular emphasis on those outside Germany. This exerts an impact on the planned future results of the two companies referred to.

Other operating expenses increased to 220 (previous year: 198) KEuros compared with the previous year. These primarily include administrative expenses such as rental and ancillary costs.

Investment income in the amount of 11,680 (previous year: 9,961) KEuros is based on profit distributions from subsidiary companies.

The income arising from appropriation of profit in the amount of 350 KEuros relates to KPS digital GmbH. The expense from the assumption of loss in the amount of 2,380 KEuros relates to KPS Business Transformation GmbH.

The interest income is primarily based on discounting of long-term provisions and from valuation of an interest swap and contractual agreements with KPS Business Transformation GmbH.

The corporate income-tax and trade-tax expense of 407 KEuros to 46 KEuros has been reduced on the basis of minimum taxation.

KPS AG posted a net loss of -8.272 KEuros for the business year 2019/2020 compared with an annual net profit in the amount of 13.570 KEuros for the business year 2018/2019.

5.2.1 Financial position

On 30 September 2020, KPS AG had liquid funds in the amount of 5,234 (previous year: 3,599) KEuros. By comparison with 30 September 2019, net liquidity went up by 1,635 KEuros.

At the end of the year under review, liabilities to banks amounted to 32,600 KEuros (previous year: 17,405 KEuros). These result on the one hand from taking out a long-term loan with a total term of five years and a total amount of 20,000 KEuros to finance company acquisitions amounting to 8,600 (previous year: 12,400) KEuros and from taking out a long-term loan with a total term of three years and a total amount of 6,000 KEuros to finance company acquisitions amounting to 6,000 (previous year: 0) KEuros. There are also short-term money-market loans for purposes of safeguarding liquidity in the amount of 18,000 (previous year: 5,005) KEuros.

n the context of several company acquisitions, KPS AG took out a long-term loan in the amount of 20 million euros. An interest-rate swap in the amount of 10 million euros was concluded to hedge the interest-rate risk, which amounts to 4.3 million euros on the balance sheet date. In view of the term of the interest swap over several years, the fair value depends on a number of factors including the future development of EURIBOR interest rates. The valuation is carried out on the basis of market data on the valuation reference date and using generally acknowledged valuation models. The interest risk prevailing on the valuation reference date in the amount of 57 (previous year: 106) KEuros was recorded as other liability.

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

	2019/2020	2018/2019
	in KEuros	in KEuros
Cash funds at the beginning of the period	3,599	3,683
Current business operations	5,518	21,225
Investment activities	-11,446	-4,415
Financial activities	8,835	-16,894
Cash funds at the end of the period	6,506	3,599

6.2.1 Asset situation

The assets side of the KPS balance sheet is essentially defined by the valuation of the company's shareholdings in subsidiary companies in the amount of 91,090 (previous year: 98,222) KEuros and receivables from affiliated companies in the amount of 16,765 (previous year: 10,357) KEuros.

On 19 December 2019, KPS Sweden AB was founded with registered office in Stockholm, Sweden.

The composition of the participations pursuant to Article 285 No. 11 German Commercial Code (HGB) is presented in the Notes to the Consolidated Financial Statements.

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

The growth in other assets from 278 KEuros in the previous year by 525 KEuros to 803 KEuros essentially results from an increase in a tax receivable from the Tax Office in the amount of 661 KEuros and a fall in debit balances in accounts payable in the amount of 207 KEuros.

The shareholders' equity of the company was reduced by 14,632 KEuros to 66,124 KEuros on 30 September 2020 from 80,756 KEuros in the previous year.

The capital stock of the company did not change during the business year and continues to be 37,412,100 euros.

Net profit came down by 14,632 KEuros to 16,172 KEuros compared with 30,804 KEuros on the year-earlier balance sheet date.

The equity ratio amounts to 55.9 % and decreased by 14.0 percentage points compared with the previous year.

Tax provisions amount to 80 (previous year: 497) KEuros and essentially include the current tax expense in 2019/2020 for corporate income tax and trade tax.

Other provisions amount to 4,550 (previous year: 5,676) KEuros and are essentially based on obligations arising from the area of personnel.

Liabilities to affiliated companies increased by 2,914 KEuros from 4,396 KEuros to 7,310 KEuros. They are essentially the balance of the cash pooling established in the KPS Group.

Liabilities to banks amount to 32,600 (previous year: 17,405) KEuros and result firstly from taking out a long-term loan with a total term of five years and a total amount of 20,000 KEuros to finance company acquisitions amounting to 8,600 (previous year: 12,400) KEuros and from taking out a long-term loan with a total term of three years and a total amount of 6,000 (previous year: 0) KEuros. There are also short-term money-market loans for purposes of safeguarding liquidity in the amount of 18,000 (previous year: 5,005) KEuros.

Other liabilities increased by 1,420 KEuros to 7,277 KEuros (previous year: 5,857 KEuros). These essentially include the purchase price obligations due in the business year 2020/2021 for acquisitions of shareholdings in KPS Digital Limited, ICE Consultants Europe S.L. and Infront Consulting & Management GmbH in the amount of 7,044 (previous year: 5,533) KEuros. This sum comprises KGBP 923 for the acquisition of KPS Digital Limited. Tax liabilities increased by 38 KEuros

7.2.1 Appropriation of earnings

Earnings after income taxes amounted to -8.3 (previous year: 13.6) million euros in the year under review and therefore decreased by 21.9 million euros compared with the previous year. As in the previous year, the proposed dividend is 6.4 (previous year: 6.4) million euros or 0.17 euros per share. This dividend proposal takes account of the profitability and the dependable payout continuity of KPS AG.

2.6 Financial and non-financial performance indicators

2.6.1 Calculation of EBITDA

In the business year 2019/2020, EBITDA of the KPS Group amounted to 22.7 million euros and is therefore at the level of the year-earlier period, in which EBITDA in the amount of 22.6 million euros was achieved. However, EBITDA for the business year 2019/2020 is only comparable with EBITDA for the business year 2018/2019 to a limited extent.

In the business year 2019/2020, IFRS 16 ("Leasing") was applied for the first time, which led to a one-off positive effect in the amount of 5.3 million euros. If the positive one-off effect as a result of first-time application of IFRS 16 is not taken into account, comparable EBITDA would have been 17.4 million euros and would therefore have come down by -23.0 %.

In the period under review, the EBITDA margin with respect to EBITDA of 22.7 million euros was 13.6 %. If the positive IFRS 16 effect is not taken into account, the EBITDA margin would be 10.6 % (EBITDA margin in the business year 2018/2019: 12.5 %).

January 2020 saw the forecast corridor for the projected EBITDA of 28 - 36 million euros being published but this was withdrawn on 27 April 2020. In April 2020, the Executive Board was no longer able to reliably assess the impact of the continuing COVID-19 pandemic on the economic position of the existing and potential customers of the KPS Group and on their demand behavior. KPS and several customers agreed to shift or to pause some projects partially.

2.6.2 Calculation of sales

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

In the reporting period 2019/2020, the KPS Group generated sales in the amount of EUR 166.4 million. Compared with the year-earlier period 2018/2019, revenues fell by 7.9 %. The drop is primarily due to the effects of the COVID-19 pandemic and the associated high levels of uncertainty, economic turbulence, and lockdown measures.

The KPS Group originally projected sales of 181 - 191 million euros in the business year 2019/2020. On 27 April 2020, the Executive Board of KPS withdrew this forecast because at this point it was no longer able to reliably assess the impact of the continuing COVID-19 pandemic on the economic position of the existing and potential customers of the KPS Group and on their demand behavior.

Sales volume amounted to 153.5 (previous year: 170.2) million euros and the KPS Group generated 92.2 % of Group revenues from management and transformation consulting with prestigious customers in the retail, consumer goods industry, pharma, energy utilities and other sectors.

The proportion of foreign sales was 49.8 % in the period under review.

2.6.3 Personnel

Our employees impress our customers through their expert knowledge and their exceptional performance and commitment. This is based on a high level of specialist qualification and continuous advanced training for our personnel.

We also apply these standards when appointing new employees. Our key guiding principles are an optimum customer-centric approach, exceptional performance and commitment, safeguarding and improvement of our quality standards, and a positive working environment.

On 30 September 2020, the KPS Group employed a total of 619 employees (previous year: 618). This means that the number of employees is virtually unchanged in the business year 2019/2020 by comparison with 30 September 2019.

In Germany, we employed a workforce of 447 employees (previous year: 448). This is equivalent to a share of 72.2 % (previous year: 77.3 %) in the Group overall. The average number of employees in the year under review amounted to 619 (previous year: 586) not including the Executive Board and Managing Directors.

Personnel expenses amounted to 67.5 million euros in the business year 2019/2020 and they were therefore slightly above the value of the equivalent year-earlier period (66,4 million euros).

2.7 Alternative performance indicators

EBIT as an indicator of the overall operating and non-operating result for the company went down by 4.7 million euros or by -25.0 % from 18.8 million euros in the previous year to 14.1 million euros in the business year 2019/2020.

For purposes of increasing transparency, an adjusted EBIT (operating result adjusted) is recognized alongside EBIT, which presents the operating result (EBIT) before “M&A-related depreciation and amortization” and amounted to 15.4 (previous year: 21.1) million in the year under review.

Based on sales of 166.4 (previous year: 180.7) million euros, the EBIT margin went down by 1.9 percentage points to 8.5 %.

At the level of EBIT, the one-time positive effect arising from first-time application of IFRS 16 ("Leasing") was almost entirely neutralized through depreciation and amortization.

The drop in sales during the period under review could partly be compensated by cost-reduction measures, particularly in the areas of sourcing subcontracted services and travel expenses. This enabled the negative sales effects on EBIT to be partly cushioned. Overall, the fall in EBIT in the business year 2019/2020 was mainly due to the drop in sales resulting from the COVID-19 crisis.

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

The global COVID-19 pandemic led to economic turbulence and disruption of global supply chains. The KPS Group was not able to shield itself entirely from the resulting effects. On the customer side, the uncertainties rose sharply in individual cases. KPS was therefore unable to achieve its original targets and forecasts for the business year, and withdrew the forecast for the business year 2019/2020 on 27 April 2020.

However, the Executive Board responded quickly and comprehensively to the outbreak of the pandemic and put together a comprehensive COVID-19 package of measures. The top priority was protection of our employees, customers, business partners, and suppliers. Furthermore, the KPS Group focused on comprehensively converting business operations and business processes to a remote mode so that we could continue to serve customers with the customary quality. Safeguarding liquidity, earning power and operating profitability were also accorded a high level of importance.

Overall, the Executive Board assesses the level of sales and profit achieved as satisfactory in view of the conditions and circumstances pertaining under COVID-19.

An equity ratio of 38.1 % (previous year: 45.2 %), low net financial indebtedness in the amount of 12.5 (previous year: 7.6) million euros, and liquid funds in the amount of 20.1 million euros mean that KPS continues to be 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.

3. OPPORTUNITIES AND RISK REPORT

The opportunities and risks, which are described in the chapters below, are applicable for all segmens of KPS.

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 with knock-on negative consequences for sales, income and liquidity of the KPS Group. Furthermore, negative, exogenous events, which do not exert a direct impact on projects, constitute risks for the KPS Group and may exert negative impacts on sales, income, assets, and liquidity of the KPS Group.

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

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

When the COVID-19 pandemic underwent serious deterioration across the world at the end of February 2020, the KPS Management introduced a comprehensive package of measures for the protection of employees, customers, suppliers, and service providers. The package of measures comprises in particular the monitoring and identification of additional risks resulting from the consequences of the COVID-19 pandemic for current, new and potential projects, and impacts on the liquidity of the Group.

3.2 Individual opportunities and risks

3.2.1 Macroeconomic opportunities and risks

The investment behavior and the change in investment conduct by companies, particularly in the spheres of IT, digitalization, and software, have exerted a major influence on the asset situation, financial position, and results of operations of the KPS Group.

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

Risks arising from the COVID-19 pandemic for the global economy, the European and German economies

The International Monetary Fund (IMF) writes in its publication of October 2020 (World Economic Outlook) that as a result of the COVID-19 pandemic, most countries will experience prolonged damage to their production potential over an extended period of time, triggered by the aftermath effects of the substantial recessions in 2020. The longer-term output losses imply a significant decline in living standards relative to the outcome expected prior to the pandemic.[20]

As a consequence, the IMF expects a fall in the global gross domestic product (GDP) of -4.4 %, of output (= GDP) in the eurozone of -8.3 % and the German economy measured by GDP of -6.0 % in 2020.[21]

In 2021, the IMF expects a recovery of the global economy and anticipated global output growth (measured in terms of GDP) in the amount of 5.2 %. The IMF assesses the risks for the expected recovery as being unexpectedly high. The prediction is based on factors and assumptions about public healthcare and economic variables, which are inherently difficult to forecast. [22]

Potential risks for KPS:

The high level of risks and uncertainties arising from the COVID-19 pandemic for the global, European, and German economies give rise to correspondingly high risks and uncertainties for the demand behavior relating to the services provided by the KPS Group to existing and potential customers. This in turn has the potential for negative impacts on the development of sales and profit of the KPS Group.

Social-distancing and lockdown measures imposed by government policymakers exert major negative economic impacts on stationary retail trade in Germany and in the markets served by KPS. Additional slowdowns in the readiness to invest by the retail trade could impact negatively on the results of operations, profit and financial situation of the KPS Group.

Risks for the global economy from trade conflicts and Brexit

According to the leading economic research institutes in German-speaking countries, the trading climate is becoming tougher. Protectionist threats are now also being implemented in the USA and new tariff barriers can frequently only be prevented at the price of new non-tariff trade restrictions. Ongoing conflicts with China and the EU continue to present downside risks in this respect. When this opportunities and risk report was prepared, the decision about an agreement between the European Union and the United Kingdom had not yet been settled.

In December 2020, the EU Commission und United Kingdom signed the agreement for UK's leave of the EU and agreed on rules for the time after UK's withdrawal. With that, United Kingdom executed its exit from the EU.

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[20] IMF, World Economic Outlook October 2020, hattps://www.imf.org/eng.Publications/WEO/Issues/2020/09/30/world economic-outlook-october-2020; Seite XIV

[21] IMF, World Economic Outlook October 2020, hattps://www.imf.org/eng.Publications/WEO/Issues/2020/09/30/world economic-outlook-october-2020; Seite 10

[22]IMF, World Economic Outlook October 2020, hattps://www.imf.org/eng.Publications/WEO/Issues/2020/09/30/world economic-outlook-october-2020; Seite XV

From the perspective of KPS, a disorderly exit by the United Kingdom from the EU represents a significant risk for the investment readiness of companies and hence to the results of operations, profit and financial situation of KPS.

Significant risks to the German and European economies

The economic development in Germany and the most important European markets, and the associated change in investment behavior exerted a significant impact on the financial position and results of operations, and the asset situation of the KPS Group.

In the course of research activities, KPS regularly analyzes studies and forecasts produced by economic institutes in order to gain the necessary overview of the likely development of the economy in markets relevant to KPS.

The high level of risks and uncertainties arising from the COVID-19 pandemic for the sales, profit and financial situation of the KPS Group have already been elucidated in the section "Risks arising from the COVID-19 pandemic for the global economy, the European and German economies". The IMF expects a significant decline in output in important European markets and assumes that economic output during 2020 is reduced in Italy (measured by GDP) by -10.6 %, in the United Kingdom by -9.8 %, in Spain by -12.8 %, and in France by -9.8 %.

The IMF is assuming a fall in economic output for Germany of -6.0 %.[23]

In many countries of Europe and in Germany, the infection figures continued to be high when this report was prepared (January 2021). Governments and authorities are attempting to contain the COVID-19 crisis by imposing in part tough social-distancing and lockdown measures. The resulting high levels of uncertainty can exert negative impacts on the investment readiness of companies and hence exert a negative influence on the results of operations, profit and financial position of KPS.

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 organization at the strategic, process and technological level. This requires a holistic approach starting with conventional materials management, extending through online business, to digital marketing and into the areas of mobile communication and analytics (big data). KPS invested in digital consulting areas at a very early stage and today it is one of the few management consultants in a position to deliver holistic, company-wide (end-to-end) digital process chains for company controlling in real time, and implement them using standardized software solutions from companies such as SAP, SAP Hybris, Adobe, and Intershop.

[23] IMF, World Economic Outlook October 2020,
hattps://www.imf.org/eng.Publications/WEO/Issues/2020/09/30/world economic-outlook-october-2020; Seite 10

KPS expects significant growth momentum in omnichannel, in B2B and also for B2C in retail, and in the service sector and industry, especially as a result of the challenges of digital transformation. KPS has found that procurement structures in companies are undergoing change, and decision-makers are no longer only to be found in the traditional IT or financial sectors. Budgets are increasingly migrating to the marketing and e-commerce departments in companies. Sales and marketing activities, and beyond these the consulting approach, in general, have to be modified to suit these additional new partners in the individual sectors.
The project cycles of KPS customers are becoming shorter as a result of the ongoing march of digitalization. As a result, KPS is finding that when companies select consulting partners, they are increasingly placing weight on the pool of expertise and skills that consulting firms have for supporting transformation projects. The partners have to be able to deploy change management initiatives and measures that are suited to motivating the employees of the individual specialist departments and supporting them in the change process. This means that companies are able to successfully implement a fast ROI project and remain agile in fiercely competitive markets.

Over the past business year, KPS has therefore continued to invest 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.

Sector-specific risks resulting from the COVID-19 pandemic

On the one hand, the disruptive shock of the COVID-19 pandemic should accelerate the digital transformation of companies. The KPS Group with its core competence offering digital transformation services end-to-end is likely to benefit from this kind of acceleration.

On the other hand, digital restructuring of a company's processes, the establishment of omni-channel strategies and solutions demands a high level of positive investment readiness by companies. The COVID-19 shock is increasing uncertainties for many companies and has temporarily reduced the willingness to invest. KPS therefore perceives a sector-specific risk as a result of the COVID-19 pandemic associated with potential negative consequences for the results of operations, profit and liquidity of the KPS Group.

The COVID-19 crisis is a global dramatic event which has been already materialized. The further course of the COVID-19 crisis is unpredictable resulting in potentially medium to high risks for KPS.

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

End of December 2020 the European Union and United Kingdom agreed on UK's exit from the EU beginning on January 1, 2021 and on follow-up regulations.

The exit from the EU in January 2021 presents KPS with a variety of regulatory risks, since in such a case the United Kingdom would be classified as a third-party country outside the EU.

KPS AG has a location in London through subsidiary companies, and one of three KPS Innovation Centers is based there. The transfer of employees between this location and other sites, and the import and export of services would then be subject to a different and more restrictive set of regulations.

In the business year 2019/2020, KPS Digital Limited generated revenues of around 12.5 million euros. Therfore, KPS qualifies the risks resulting from the UK's exit as low to medium.

3.2.4 Opportunities and risks arising from order processing

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

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

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

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

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

Furthermore, the COVID-19 pandemic has led to some customers asking for project breaks and project postponements. In these cases, the project and order development was consequently interrupted with corresponding negative impacts on the sales and profit of KPS. Depending on how the COVID-19 pandemic continues to develop, existing or potential customers of KPS may ask for additional project breaks and project deferrals. This would exert further negative effects on the sales and profit performance. KPS assesses project deferrals and project breaks resulting from the COVID-19 pandemic as being a medium risk.

3.2.5 Opportunities and risks arising from scale effects

The interest of large companies in the consulting services of KPS is continuing to grow as a result of the current size of the company, continually rising annual sales of presently around 166 million euros, and a consistently growing, stable consulting team of 619 employees at the moment.

The burgeoning appeal of KPS increases the opportunities of being engaged by major clients as a general contractor.

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

A number of clients of the KPS Group come from the area of stationary retail.

As a result of the COVID-19 pandemic and the associated lockdown measures, retailers apart from the area of DIY stores, drugstores, and food are subject to particularly negative impacts as a consequence of the stringent measures. KPS therefore temporarily classifies this risk contingently as high on account of the COVID-19 pandemic.

3.2.6 Personnel risk

Company knowledge is located in the human capital of KPS and it is therefore firmly anchored in the employees of the company.

The migration of highly qualified managers and consultants to competitor companies can therefore lead to a loss of know-how and this is hence a risk for KPS.

The loss of employees can exert a negative impact on the development of business activities and on key financial indicators. By comparison with competitors, KPS does not believe it is subject to a particularly high or a particularly low risk in this respect. This typical risk specifically in the consulting sector is assessed by KPS as medium.

3.2.7 Opportunities and risks in investment and finance

Currency risks arise to a limited extent on account of the expansion into European "non-euro foreign countries" in particular into Denmark, Sweden, the United Kingdom and Norway.

KPS assesses the liquidity and interest-rate risks as limited 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 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 a monthly overview of overdue items for each customer. This enables KPS to respond promptly to any change in a customer’s payment pattern. If default and creditworthiness risks are identified in 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. As a result of the COVID-19 pandemic and the associated uncertainties and risks, KPS has continued to strengthen its monitoring of customers' payment behavior and the management of liquidity. The additional risk arising from the COVID-19 pandemic relating to the payment behavior of individual customers is classified as a medium risk.

The impacts of exchange-rate developments are classified as a low risk on account of the customer structure.

3.2.8 Liquidity risk

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

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

The refinancing risk is understood as the risk of not being able to create liquidity as required or not at the expected conditions.

KPS has sufficiently high credit lines in order to cover a potential, non-foreseeable financial requirement. The additional risks arising from the COVID-19 pandemic are included here.

KPS classifies the liquidity risk as low.

3.2.9 Tax opportunities and risks

The Executive Board is not currently aware of any significant fiscal risks. The tax risk is therefore classified as low.

3.2.10 Technological opportunities and risks

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

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

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

3.3 Overall assessment of opportunities and risks

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

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

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

The COVID-19 pandemic and the associated conversions of processes to remote working, and the resulting uncertainties on the part of customers were taken account of in the internal controlling and risk management system. As a consequence, the communication times of project-related information was significantly shortened and additional data were used for the management of further risks.

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

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

4. OUTLOOK REPORT

4.1 Macroeconomic forecast

Robust recovery expected for the global economy in 2021
After the difficult year in 2020, with -4.0% global economic growth, the experts from the leading German economic research institutes are once again predicting an upswing for the years 2021 and 2022. 2021 will be defined by 5.9 % growth as a result of recovery from the recession triggered by COVID-19, and growth in 2022 is then predicted to ease to 3.7 %.[24]

The experts are expecting a significant catch-up effect for the economy in the second half of 2020, if restrictions are consistently maintained. Economic sectors such as hospitality and transport services are particularly severely affected by the restrictions. The experts also assume that the pandemic can be repulsed in the course of 2021 so that the containment measures can be lifted. Nevertheless, investments in companies and major acquisitions in private households will be affected by universal reticence as a result of ongoing uncertainties. Although consumption will be supported by pent-up purchasing power, it will also be held back in many places by unemployment. A return to the growth trends that were expected prior to the crisis will take some time and jobs lost during the crisis will only gradually be reinstated elsewhere.[25]

Global trade recently underwent rapid expansion, but growth for 2020 is still expected to be 6.6 % below the year-earlier level. In both 2021 and 2022, an increase by 5.9 % and 3.3 % respectively is predicted. The oil price is likely to rise only slightly with an increase from 41 US dollars to 43 US dollars per barrel of Brent crude.[26]

European economies with expected significant catch-up effect
The economic researchers are expecting the trajectory for the European economies to emulate that of the global economy. After the year 2020 was defined by COVID-19, with -7.0 % growth expected in the 27 EU countries, and -7.4 % in the eurozone, the catch-up effect is predicted to follow in 2021 and 2022 with 5.5 % (eurozone: 5.6 %) growth in 2021 and 3.1 % (eurozone: 3.0 %) in the following year.[27]

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[24] Erholung verliert an Fahrt – Wirtschaft und Politik weiter im Zeichen der Pandemie, Gemeinschaftsdiagnose 2-2020, Projektgruppe Gemeinschaftsdiagnose [Recovery loses Momentum – Business and Policymakers continue to be driven by the Pandemic, Joint Diagnosis 2-2020, Project Group Joint Diagnosis], October 2020, http://gemeinschaftsdiagnose.de/wp-content/uploads/2020/11/GD_H20_Langfassung_online.pdf

[25] Erholung verliert an Fahrt – Wirtschaft und Politik weiter im Zeichen der Pandemie, Gemeinschaftsdiagnose 2-2020, Projektgruppe Gemeinschaftsdiagnose [Recovery loses Momentum – Business and Policymakers continue to be driven by the Pandemic, Joint Diagnosis 2-2020, Project Group Joint Diagnosis], October 2020, http://gemeinschaftsdiagnose.de/wp-content/uploads/2020/11/GD_H20_Langfassung_online.pdf

[26] Erholung verliert an Fahrt – Wirtschaft und Politik weiter im Zeichen der Pandemie, Gemeinschaftsdiagnose 2-2020, Projektgruppe Gemeinschaftsdiagnose [Recovery loses Momentum – Business and Policymakers continue to be driven by the Pandemic, Joint Diagnosis 2-2020, Project Group Joint Diagnosis], October 2020, http://gemeinschaftsdiagnose.de/wp-content/uploads/2020/11/GD_H20_Langfassung_online.pdf

[27] Erholung verliert an Fahrt – Wirtschaft und Politik weiter im Zeichen der Pandemie, Gemeinschaftsdiagnose 2-2020, Projektgruppe Gemeinschaftsdiagnose [Recovery loses Momentum – Business and Policymakers continue to be driven by the Pandemic, Joint Diagnosis 2-2020, Project

The European countries are combatting the disease by taking comprehensive measures against the COVID-19 crisis and they largely succeeded, for example, in preventing a rapid, sharp rise in unemployment figures. However, as the short-time work programs come to an end, the unemployment rate is likely to rise, after an unemployment rate of 8.1 % in the eurozone for 2020, 9.0 % and 8.2 % are forecast respectively for the two subsequent years.[28]

Weak economic growth expected for Germany
Following growth of - 5.4 % in 2020, the leading economic research institutes also expect an economic recovery for Germany in the subsequent years: growth of 4.7 % is expected in 2021 and 2.7 % in 2022.

The reason for the rapid upturn, particularly by comparison with the Big Recession, is the swift global recovery. In the opinion of the experts, the pandemic exerted an influence on the global economy in the form of an exogenous shock, which is likely to exert much less of a negative impact on production structures. However, the recovery process will slow down with time so that getting back to the pre-crisis level is likely to take around eight quarters.

The number of employed people in the labor force suffered a collapse of 609,000 in the second quarter, the biggest collapse since the start of quarterly statistics in 1970. Since July, the number of individuals in gainful employment has increased again. However, this recovery is likely to slow down once more. One reason is that the extremely low level of unemployment prevailing previously is likely to have arisen as a result of the overcapacity of previous years. A second reason is that the crisis will be likely to result in a shift in the demand for workers between sectors, and experts predict that this is likely to take some time. In contrast to the eurozone, the number of unemployed is likely to remain unchanged at 5.9 % in 2021 by comparison with 2020 and then fall back to 5.5 % in 2022.

4.2 Sector-specific forecast

Significant fall in sales expected in the consulting sector
After the Business Climate Index for the consulting sector determined by the Federal Association of German Management Consultants (BDU) had collapsed to 70.4 points in March, it bounced back to 94.5 points by December. The management consultants regard this as a positive sign overall for the future.[29]

Group Joint Diagnosis], October 2020, http://gemeinschaftsdiagnose.de/wp-content/uploads/2020/11/GD_H20_Langfassung_online.pdf

[28] Erholung verliert an Fahrt – Wirtschaft und Politik weiter im Zeichen der Pandemie, Gemeinschaftsdiagnose 2-2020, Projektgruppe Gemeinschaftsdiagnose [Recovery loses Momentum – Business and Policymakers continue to be driven by the Pandemic, Joint Diagnosis 2-2020, Project Group Joint Diagnosis], October 2020, http://gemeinschaftsdiagnose.de/wp-content/uploads/2020/11/GD_H20_Langfassung_online.pdf

[29] Geschäftsklima Consulting [Business Climate Consulting] – December 2020, BDU Press Release, https://www.bdu.de/news/consultingmarkt-entwickelt-sich-je-nach-unternehmensgroesse-oder-branchenfokussierung-sehr-uneinheitlich/

However, development within the sector proceeded rather unevenly. 41 % of the major consulting firms report a good business situation to the BDU, while 27 % describe their situation as poor, and only around every tenth firm is below budget. Smaller consulting firms and individual consultants are battling with significantly more issues – in the case of consulting firms with annual sales of less than 250,000 euros, around 50 % report a poor business situation, while only 19 % say that business is going well.[30]

Based on specialization, IT consultants report the biggest upswing in sentiment. They are benefiting from the further ramping up of challenges for digitalization in companies resulting from the crisis and the easing of the investment holdup. In the case of organization and process consultants, sentiment deteriorated slightly, while HR and personnel consultants are facing the greatest challenges.[31]

More than one third of market participants are anticipating a fall in sales of at least 30 % for 2020, indicating that the market as a whole will witness a drop in sales of between 5 % and 10 %. The BDU is assuming that there will only be a recovery to the sales level of 2019 in 2022.[32]

According to the Lünendonk Study 2020 on Market Development for IT Consulting and IT Service in Germany, visibility in the market has been significantly reduced as a consequence of the coronavirus crisis. The 2020 study is therefore not publishing any sales forecasts by the market participants. However, overall, differences emerge between the individual consulting firms, which responded at differing pace and efficiency to remote working.[33]

4.3 Expected business development of the KPS Group and KPS AG

The assessment for the business year 2020/2021 is based on the development of past reporting periods, the results of previous months, the consulting portfolio comprising portfolio projects, and newly acquired projects.

The persistent COVID-19 pandemic that continues to exhibit high infection figures in many European countries and the associated social-distancing and lockdown measures have led to further uncertainties in the assessment of potential development in the business year 2020/2021.

When this report was prepared, the Executive Board and the Management of KPS AG continued to be unable to assess reliably how the persistent COVID-19 pandemic will affect the economic position of existing and potential customers of the KPS Group and their demand behavior. Hence, the resulting effects on the development of sales and earnings in the business year 2020/2021 are difficult to quantify and burdened by high levels of uncertainty.

[30] Geschäftsklima Consulting [Business Climate Consulting] – December 2020, BDU Press Release, https://www.bdu.de/news/consultingmarkt-entwickelt-sich-je-nach-unternehmensgroesse-oder-branchenfokussierung-sehr-uneinheitlich/
[31] Geschäftsklima Consulting [Business Climate Consulting] – December 2020, BDU Press Release, https://www.bdu.de/news/consultingmarkt-entwickelt-sich-je-nach-unternehmensgroesse-oder-branchenfokussierung-sehr-uneinheitlich/
[32] Geschäftsklima Consulting [Business Climate Consulting] – December 2020, BDU Press Release, https://www.bdu.de/news/consultingmarkt-entwickelt-sich-je-nach-unternehmensgroesse-oder-branchenfokussierung-sehr-uneinheitlich/
[33] Lünendonk Study 2020, Der Markt für IT-Beratung und IT-Service in Deutschland [The Market for IT Consulting and IT Service in Germany], 2020, https://www.luenendonk.de/produkte/studien-publikationen/luenendonk-studie-2020-der-markt-fuer-it-beratung-und-it-service-in-deutschland/

KPS is well positioned to address the challenges of the future and take advantage of the opportunities presented by the digitalization of business processes. In addition, KPS has a very robust financial structure and sound results of operations.

In the business year 2020/2021, the Executive Board and Management are focusing very strategically on further optimization of income and mitigating the impacts of the COVID-19 pandemic.

On the basis of the information and data available when this report was prepared, the Executive Board of KPS AG estimates to reach sales at a comparable level with that of the business year 2019/2020. Furthermore, It is planned to increase EBITDA moderately. Our projections for the business year 2019/2020 are made on the assumption that planned projects can be executed and cost reductions especially for our costs of materials can be realized.

Our forecast is based on factors and projections about future business and economic developments known to us today. Changes that are unforeseeable from today’s perspective in the anticipated economic framework conditions, in particular effects arising from the continuing trajectory of the COVID-19 pandemic in ongoing projects, in the current order backlog and in other external and internal factors could exert significant negative effects on our sales and earnings expectations so that assessments made in this report 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 2019/2020 amounted to a total of 420 (previous year: 573) KEuros, with the variable share amounting to 29 % (previous year: 42 %) of the total payments.

The Member of the Executive Board is also provided with a vehicle for official and private use. The company has further concluded an accident insurance and a D&O insurance policy for the Member of the Executive Board. The contributions for statutory health insurance made by the Member of the Executive Board are also reimbursed to him and he is entitled to payment of the usual employer's share for statutory pension insurance that is applicable when employing an employee. The expenses for this amounted to 63 (previous year: 63 KEuros) in the business year 2019/2020

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 2019/2020, the compensation for the Supervisory Board amounted to a total of 55 (previous year: 55) KEuros. In the business year 2019/2020, 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 2019/2020

6.1 Composition of the subscribed capital

On 30 September 2020, the capital stock of the company amounted to 37,412,100 euros. It is divided up into 37,412,100 no-par value ordinary shares each representing a nominal value of 1 euro in the capital stock. All shares entail the same rights and obligations.

During the course of the business year, none of the company's own shares (treasury shares) were purchased or sold. On 30 September 2020, the company did not hold any treasury shares (previous year: 0).

6.2 Restrictions on voting rights and transfers

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

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

6.3 Capital shares greater than 10 percent

Direct or indirect shareholdings in the capital of the company which exceed 10 % of the voting rights were held as follows according to the knowledge of the Executive Board as at 30 September 2020:

	Stück	in %
Michael Tsifidaris	9,080,050	24.3%
Dietmar Müller	4,162,486	11.1%
Leonardo Musso	4,103,084	11.0%
Uwe Grünewald	4,052,390	10.8%

In the business year 2019/2020, 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 of 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 2017/1 approved by the Annual General Meeting on 7 April 2017 was cancelled by resolution of the Annual General Meeting held on 25 September 2020. Instead, authorized capital 2020/1 was created in the amount of 18,706,050.00 euros.

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

There was no change in the authorized capital 2020/I during the business year 2019/2020.

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

The resolution adopted by the Annual General Meeting on 25 September 2020 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. According to this, 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 24 September 2025. The conditions for acquisition, appropriation and exclusion of subscription rights were explicitly regulated.

No portfolio of treasury shares was held on the balance sheet date. In the business year 2019/2020, no shares were purchased or sold.

6.8 57Important 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 to which he is entitled on the date of the contract termination if he exercises the contractually agreed special right to serve notice of termination within 12 months of the change of control. A change of control is deemed to exist if one or more than one shareholder acting together, who alone or together do not currently hold a majority of the shares in the company, alone or together acquire more than 50 % of the voting rights in the company, or the company becomes a dependent company by concluding a company agreement pursuant to Article 291 Section 1 Stock Corporation Law (AktG). The same shall apply if the company merges with another enterprise. In this case, the Vice Presidents were granted an extended deadline for serving notice of termination. In the case of voluntary notice of termination issued by the Vice President, he is entitled to request the waiver to prohibition on competition.

7. LEGAL DISCLOURES

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

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

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

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

Unterföhring, 15 January 2021

KPS GROUP

BUSINESS FIGURES

KPS AG Consolidated Financial Statements in accordance with IFRS

INCOME STATEMENT

1 October 2019 to 30 September 2020

in Keuros		Note	2019/2020	2018/2019
1	Revenues	5.1.	166,446	180,656
2	Own work capitalized	5.2.	1,412	2,450
3	Other operating income	5.3.	961	615
4	Cost of materials	5.4.	-58,381	-62,678
5	Personnel expenses	5.5.	-67,455	-66,410
6	Other operating expenses	5.6.	-20,307	-32,083
7	Operating result before depreciation and amortization (EBITDA)		22,675	22,550
8	Depreciation and amortization (M&A adjusted) *	5.7.	-7,276	-1,414
9	Operating result (EBIT) adjusted *		15,400	21,136
10	Depreciation and amortization (M&A related)	5.7.	-1,294	-2,333
11	Operating result (EBIT)		14,106	18,803
12	Financial income	5.8.	103	77
13	Financial expenses	5.8.	-1,939	-953
14	Financial result		-1,836	-876
15	Earnings before income taxes **		12,270	17,928
16	Income tax	5.9.	-4,127	-5,735
17	Earnings after income taxes		8,143	12,193
	Number of shares in thousands - basic/diluted		37,412	37,412
in euros				
	Earnings per share			
	– basic	5.10.	0.22	0.33
	– diluted	5.10.	0.22	0.33

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

KPS AG Consolidated Financial Statements in accordance with IFRS

COMPREHENSIVE INCOME
STATEMENT for the period from 1 October 2019 to 30 September 2020

in Keuros	2019/2020	2018/2019
Earnings after income taxes	8,143	12,193
Actuarial gains and losses arising from defined benefit pension commitments and similar obligations	303	45
Foreign currency translation adjustment for foreign subsidiary companies	-107	18
Comprehensive income	8,339	12,256

INDICATORS FOR THE INCOME STATEMENT

in million euros	2019/2020	2018/2019
Revenues	166.4	180.7
EBITDA	22.7	22.6
EBITDA margin	13.6%	12.5%
EBIT	14.1	18.8
EBIT margin	8.5%	10.4%

KPS AG Consolidated Financial Statements in accordance with IFRS

GROUP BALANCE SHEET

As at 30 September 2020

ASSETS

in KEuros		Note	30.09.2020	30.09.2019
ASSETS				
A. NON-CURRENT ASSETS				
I.	Property, plant and equipment	6.1.	2,698	1,653
II.	Goodwill	6.2.	62,546	62,546
III.	Other intangible assets	6.2.	14,095	15,677
IV.	Rights of use from leasing contracts	6.20.8.	28,979	0
V.	Deferred tax assets	6.3.	4,247	4,777
			112,565	84,653
B. CURRENT ASSETS				
I.	Contractual assets	6.4.	8,172	4,100
II.	Trade receivables	6.5.	30,130	40,740
III.	Other receivables and financial assets	6.6.	1,586	1,889
IV.	Entitlements to income tax rebates	6.7.	1,440	1,022
V.	Cash and cash equivalents	6.8.	20,115	9,855
			61,444	57,606
Total assets			174,009	142,259

LIABILITIES AND SHAREHOLDERS' EQUITY

in Keuros		Note	30.09.2020	30.09.2019
A. SHAREHOLDERS' EQUITY				
	Share in equity attributable to shareholders of KPS A			
I.	Subscribed capital	6.9.	37,412	37,412
II.	Capital reserve	6.9.4.	-10,222	-10,222
III.	Retained earnings	6.9.5.	663	663
IV.	Other comprehensive income	6.9.6.	-111	-364
V.	Group net profit	6.9.7.	38,535	36,752
	Total equity		66,277	64,241
LIABILITIES				
B. NON-CURRENT LIABILITIES				
I.	Non-current provisions	6.10.	3,923	3,653
II.	Other non-current liabilities	6.11.	4,244	10,155
III.	Non-current financial liabilities	6.12.	9,300	8,600
IV.	Non-current leasing liabilities	6.20.7.	24,135	0
V.	Deferred tax liabilities	6.13.	2,248	1,669
			43,850	24,077
C. CURRENT LIABILITIES				
I.	Trade liabilities	6.14.	7,009	10,523
II.	Financial liabilities	6.15.	23,300	8,805
III.	Contractual liabilities	6.16.	200	174
IV.	Other provisions	6.17.	11,337	11,854
V.	Other liabilities	6.18.	15,433	17,197
VI.	Current leasing liabilities	6.20.7.	4,590	0
VII.	Income tax liabilities	6.19.	2,013	5,388
			63,882	53,941
Total liabilities			107,732	78,018
Total shareholders' equity and liabilities			174,009	142,259
Equity ratio			38.1%	45.2%

KPS AG Consolidated Financial Statements in accordance with IFRS

CONSOLIDATED CASH FLOW STATEMENT IN ACCORDANCE WITH IFRS

for the period from 1 October 2019 to 30 September 2020

in Keuros		2019/2020	2018/2019
A.	**Current business operations**		
	Earnings before interest and income taxes (EBIT)	14,106	18,803
	Depreciation of fixed assets	8,570	3,747
	Change in current assets	6,841	-2,083
	Change in provisions	-517	2,160
	Other non-cash expenses and income	2,234	6043
	Changes in other liabilities	-2,527	-925
	Losses from asset disposals	-30	27
	Taxes paid	-6,735	-3,819
	Interest received	98	26
	Cash inflow/outflow from business operations	22,040	23,979
B.	**Investment activities**		
	Investments in property, plant and equipment	-1,935	-708
	Investments in intangible assets	-1,546	-2,693
	Investments in acquisition of ICE	-7,984	-1,984
	Investments in acquisition of Infront	-2,370	0
	Investments in acquisition of Envoy	-1,004	-563
	Cash receipts from sale of assets	0	0
	Cash inflow/outflow from investment activities	-14,839	-5,948
C.	**Financial activities**		
	Interest paid	-334	-366
	Interest paid for leasing liabilities	-154	0
	Cash receipts from taking out loans	24,000	0
	Payments for the settlement of loans	-8,805	-3,800
	Payments for the settlement of leasing liabilities	-5,287	0
	Dividend payouts	-6,360	-13,094
	Cash inflow/outflow from financial activities	3,060	-17,260
		Net change in cash fund	
D.			**771**

in Keuros		2019/2020	2018/2019
E.	**Cash funds at the beginning of the period**	**9,855**	**9,084**
F.	**Related consolidation changes in cash fund**	**0**	**0**
G.	**Cash funds at the end of the period**	**20,116**	**9,855**
	COMPOSITION OF CASH FUND	**Balance 30.09.2020**	**Balance 30.09.2019**
in Keuros			
	Cash in hand and bank balances	20,116	9,855
Cash funds		20,116	9,855

KPS AG Consolidated Financial Statements in accordance with IFRS

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT KPS – IFRS

'in Keuros	Subscribed capital	Treasury shares	Total of subscribed capital
30.09.2018	**37,412**	**0**	**37,412**
Disposal of treasury shares	0	0	0
Equity transactions with shareholders	0	0	0
Dividend payout	0	0	0
Changes recognized without affecting income	0	0	0
Group earnings	0	0	0
30.09.2019	**37,412**	**0**	**37,412**
Disposal of treasury shares	0	0	0
Equity transactions with shareholders	0	0	0
Dividend payout	0	0	0
Changes recognized without affecting income	0	0	0
Group earnings	0	0	0
30.09.2020	**37,412**	**0**	**37,412**

		Accumulated other comprehensive income			
Capital reserve	**Retained earnings OCI**	**Currency translation differences**	**Pension commitments**	**Group net profit**	**Equity**
-10,222	**663**	**51**	**-478**	**37,654**	**65,080**
0	0	0	0	0	0
0		0	0	0	0
0	0	0	0	-13,094	-13,094
0	0	18	45	0	63
0	0	0	0	12,291	12,291
-10,222	**663**	**69**	**-433**	**36,752**	**64,241**
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	-6,360	-6,360
0	0	-107	360	0	253
0	0	0	0	8,143	8,143
-10,222	**663**	**-38**	**-73**	**38,535**	**66,277**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. INFORMATION ON THE COMPANY AND THE GROUP

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.

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.

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.

1.1 Accounting principles

The consolidated financial statements of KPS AG drawn up for the period to 30 September 2020 were prepared in accordance with the regulations of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), London, and the interpretations of the IFRS Interpretations Committee (IFRIC). The version of the IASB relating to the consolidated financial statements is in accordance with the view of the European Union, since up to 30 September 2020 all applicable standards and interpretations, which exert effects on the consolidated financial statements, were adopted.

The business year of the Group deviates from the calendar year and extends from 1 October 2019 to 30 September 2020.

The consolidated financial statements are prepared in euros (€). Unless otherwise noted, all amounts are given in thousand euros (KEUR). 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 2019/2020, the equivalent year-earlier figures are given for purposes of comparison. These are presented in brackets.

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

The Executive Board of KPS AG prepared the consolidated financial statements on 15 January 2021 and presented them to the Supervisory Board. The Supervisory Board has the function of auditing the consolidated financial statements and declaring whether they approve them.

1.2 Change in significant accounting policies

1.2.1 Leases

On 1 October 2019, KPS applied IFRS 16 for the first time. IFRS 16 was applied in accordance with the modified retrospective method. The comparative information for the business year 2018/2019 was therefore not adjusted, i.e. reporting was as previously in accordance with IAS 17 and the associated interpretations. The details of the amendments to the accounting methods are therefore set out below. Furthermore, the disclosure obligations in IFRS 16 were not generally applied to the comparative information.

1.2.2 Definition of lease

Up to now, a determination was carried out at the beginning of a contract to establish whether there was an agreement in accordance with IFRIC 4. The determination is now based on the definition of a lease, as explained in the following sections, as to whether a contract is based on a lease.

When the transition was made to IFRS 16, KPS decided to apply the simplification regulation on retaining the assessment as to which transactions are leases. KPS only applied IFRS 16 for agreements which were identified previously as leases. Agreements which were not identified as leases in accordance with IAS 17 and IFRIC 4 were not reviewed in order to establish whether a lease exists in accordance with IFRS 16. The definition of a lease in accordance with IFRS 16 was therefore only used for contracts which were concluded or amended on or after 1 October 2019.

1.2.3 Leases which were classified as operating leases in accordance with IAS 17

KPS leases assets as a lessee including real estate, vehicles and office equipment. The leases were previously classified as operating leases based on the determination as to whether the lessor essentially bears all the risks and opportunities associated with ownership of the underlying asset. In accordance with IFRS 16, KPS reports rights of use and leasing liabilities for most of these leasing agreements, i.e. these leasing agreements are recognized in the balance sheet.

On the delivery date or on the date of an amendment to an agreement which includes a leasing component, the contractually agreed payment is allocated on the basis of the relative individual sales prices. In the case of vehicles and office equipment, a decision was taken to refrain from a separation of non-leasing components and instead to report leasing and hence associated non-leasing components as a single leasing component.

Up to now, leases of real estate, vehicles and office equipment have been classified as operating leases in accordance with IAS 17. When the transfer was made, leasing liabilities for these leasing agreements were valued with the cash value of the remaining lease payments, discounted with the incremental borrowing rate on 1 October 2019. Rights of use are valued at the amount of the leasing liability.

The rights of use for impairment were reviewed on the date of the transfer and this revealed that there are no grounds for an impairment of the rights of use.

Use was made of a series of simplification rules for application of IFRS 16 to leases, which were classified in accordance with IAS 17 as operating leases. The individual simplification rules were as follows:

- In the case of leases for which the term ends within 12 months after the date of first-time application, neither rights of use nor leasing liabilities will be recognized,
- In the case of leases for which the underlying assets are low-value assets, neither rights of use nor leasing liabilities will be recognized,
- In the case of valuation of the rights of use at the date of first-time application, the initial direct costs are not taken into account, and
- The term of the leases is determined retrospectively.

1.2.4 Effects on the financial statements on the date of the transfer

When the transfer was made to IFRS 16, additional rights of use and additional leases were recorded. The effects on the date of the transfer are summarized below.

in KEuros	01.10.2019
Rights of use	24,013
- Buildings	20,058
- Office equipment	2,148
- Vehicles	1,807
Leasing liabilities	24,013

For the valuation of leasing liabilities arising from operating leases, the leasing instalments were discounted with the incremental borrowing rate as at 1 October 2019. The weighted average interest rate is 0.70%.

in KEuros	01.10.2019
Operating leases in accordance with IAS 17 as at 30.09.2019	30,197
Discounted with the weighted incremental borrowing rate	29,159
Exercise of extension options	23
Practical remedy for leases of low-value assets	0
Practical remedy for short-term leases	-266
Separation of non-leasing components	-4,903
Leasing liabilities as at 01.10.2019	24,013

1.3 Non-financial assets and liabilities

1.3.1 Leases

The income statement shows the following amounts in conjunction with leases. Disclosures on leases in which the Group is the lessor are listed in Note 1.3.6.

1.3.2 Amounts recognized in the balance sheet

The income statement shows the following amounts in conjunction with leases:

Book value right of use assets in KEUROS	30.09.2020	01.10.2019
Buildings	22,956	20,058
Vehicles	1,487	1,807
Office equipment	4,536	2,148
Total	28,979	24,013

Additions to rights of use in KEUROS	30.09.2020	01.10.2019
Additions	10,216	0
Total	10,216	0

Leases in KEUROS	30.09.2020	01.10.2019
Short-term	4,590	0
Long-term	24,135	0
Total	28,725	24,013

1.3.3 Amounts recorded in the income statement

The income statement shows the following amounts in connection with leases:

Depreciation in KEUROS	01.10.2019-30.09.2020
Buildings	2,451
Vehicles	1,223
Office equipment	1,365
Total depreciation and amortization	5,039

Interest expense in KEUROS	01.10.2019-30.09.2020
Interest expenses for leasing liabilities	154
Total interest expense	154

Practical remedies in KEUROS	01.10.2019-30.09.2020
Expense for short-term leases	508
Expense for leases related to an asset value of low-value assets	0
Total	508

Total cash outflows for leases shown in the cash flow statement amount to KEUR 5,441 in the reporting period.

1.3.4 Leasing activities of the Group and their treatment in the balance sheet

KPS leases various office buildings, items of business equipment and vehicles. Lease agreements are generally concluded for fixed periods of up to 13 years, but they may have extension options, as described in the following section.

Agreements can include leasing and non-leasing components. In the case of the lease agreements for office equipment and vehicles, use is made of the option not to carry out any differentiation between leasing and non-leasing components, but to report the entire agreement as a lease agreement.

Lease agreements are reported as a right of use and corresponding leasing liability on the date on which the leasing object is delivered for application. Assets and liabilities arising from leases are recorded at cash values on first-time recognition. The leasing liabilities include the cash value of the following lease payments:

- Fixed payments (including in-substance fixed) payments less any lease incentives receivable
- Variable lease payments which are linked to an index or (interest) rate, are initially valued with an index or interest (rate) on the delivery date

The valuation of the leasing liability also takes into account lease payments if it is sufficiently certain that a lessee will exercise extension options. Lease payments are discounted with the incremental borrowing rate of the lessee, i.e. the interest rate which the relevant lessee would have to pay if the lessee had to borrow the funds in order to purchase an asset with a comparable value for a comparable term with comparable certainty under comparable conditions in a comparable economic environment.

In order to determine the incremental borrowing rate, the conditions of finance borrowed from third parties are utilized.

KPS is exposed to potential future increases in variable lease payments which may arise from a change in an index. These possible changes in leasing instalments are not included in the leasing liability until they become effective. The future lease payments in a long-term building lease agreement are linked to the consumer price index. Structuring the rent like this is standard for commercial real estate in Germany. In accordance with the agreement, no adjustment of the lease payments can be carried out in the subsequent business year 2020/2021.Rights of use are valued at acquisition cost, which is comprised as follows:

- the amount of first-time valuation of the leasing liability
- all lease payments made at or before delivery less all/any leasing incentives received
- all the initial direct costs incurred by the lessee and
- any estimated costs incurred by the lessee for disassembly or removal of the underlying asset when the location on which the assets are situated is reinstated or when the underlying asset is restored to the condition required under the lease agreement.

Rights of use are depreciated straightline over the shorter of the two periods relating to the duration of use and the term of the underlying lease agreement. If the exercise of a purchase option is regarded as sufficiently certain from the perspective of KPS, depreciation is carried out over the duration of use of the underlying asset.

Payments for short-term leases of vehicles and lease agreements involving low-value assets (small tickets) are recognized by the straightline method in profit or loss. Leasing contracts are deemed to be short-term leases if they have a term of up to 12 months. Low-value assets (small tickets) include IT equipment.

1.3.5 Extension and termination options

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

Critical judgements in determining the term of the leases

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

- If a termination option is exercised or an extension option is not exercised and KPS incurs significant costs in relation to the termination of the lease, e.g. relocation costs, it is generally deemed to be sufficiently certain that the agreement will not be terminated or extended.
- If installations have been carried out by the lessee that have a material residual value, it is generally deemed to be sufficiently certain that the agreement will be extended or not terminated respectively.

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

As at 30 September 2020, potential future cash outflows in the amount of KEUR 9,400 (undiscounted) were not included in the leasing liability because it was not sufficiently certain that the lease agreements are being extended (or not terminated).

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

1.3.6 KPS as lessor

KPS AG has sublet parts of an office building that the company has leased. As a consequence, it has entered into a sub-lease, whereby the company is operating as a lessor. The lease was classified as an operating lease. The lease agreements for the business year 2019/2020 amount to KEUR 184.

The sublet relates to the lease of unused office space. This is the only circumstance in which the company operates as a lessor. The company has protected itself from all claims against the tenant by means of a deposit in the form of a bank guarantee. The lease agreement provides for a fixed leasing term of three years.

Expected incoming payments from subleasing	in KEuros
Until one year	186
from 1 to 2 years	186
from 2 to 3 years	8

1.4 IFRS standards not applied

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

- Amendments to IFRS 3: Definition of a business
- Amendments to IFRS 17: Insurance contracts
- Amendments to IAS 1 and IAS 8: Definition of material
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform
- Amendments to references to the conceptual framework in IFRS standards
- Amendments to IAS 1: Classification of liabilities as current or non-current

2. PRINCIPLES AND METHODS, AND UNCERTAINTIES DUE TO ESTIMATES

2.1 Application of decisions of judgement and estimates

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. 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.

The main application areas in which estimates are applied are presented below:

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

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

Any estimates undertaken in the context of the purchase price allocation can significantly influence the 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.

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

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.

Over the course of the business year under review, the business and economic environment of KPS was negatively influenced by the coronavirus pandemic (COVID-19). However, a range of different measures produced mitigating effects, which were adopted worldwide on the part of KPS or the governments and countries. These measures also took the form of financial support.

Incoming orders, revenues and profit after taxes were negatively impacted by COVID-19 over the course of the business year under review. There was significant variation in the effects of COVID-19 depending on the region and customer sector. Owing to the continuing spread of the virus, it is currently virtually impossible to predict the duration and scope of the consequent impacts on assets, liabilities, results and cash flows of KPS. The relevant estimates and assumptions made when the consolidated financial statements for 30 September 2020 were prepared were based on the knowledge at the time and the best available information.

At the time, KPS assumed that the COVID-19 situation would not prevail over the long term. Correspondingly, KPS assumes that the effects of the pandemic on the consolidated financial statements will not be of fundamental, serious significance.

COVID-19-related impacts on the consolidated financial statements may continue to result as a consequence of a very wide range of factors. These Include deteriorating creditworthiness, payment defaults or delayed payments, delays in incoming orders, as well as in order processing or contractual performance, contract terminations, adjusted or modified revenue and cost structures, and the difficulty of making predictions and forecasts owing to uncertainties relating to the level and timing of payment flows. Interest-rate adjustments in different countries and an increasing volatility of exchange rates may exert an impact to a lesser extent.

These factors may exert an impact on the fair values and book values of assets and liabilities, the level and timing of earnings realization and payment flows. It is possible that adjustments of assumptions and book values may be necessary in the coming business year. KPS is working on the basis that the underlying assumptions appropriately reflect the situation at the time when the consolidated financial statements were drawn up.

3. 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.

Subsidiary companies are those companies over which KPS AG is able to exercise control or power of disposition, is exposed to a burden of risk as a result of fluctuating returns and can utilize this power of disposition to influence the level of the returns of the investment companies. This is generally based on indirect or direct majority voting rights held by KPS AG. The majority voting rights are generally manifested in the form of share ownership of more than 50 %. Inclusion in the consolidated group commences on the date from which the possibility of control commences. Consolidation ends when control is no longer possible.

Alongside KPS AG as the legal parent company, the scope of consolidation includes the following companies in which KPS AG holds a direct or indirect interest, and which are included on the basis of full consolidation in the consolidated financial statements:

Shareholding	Registered office	Share in %	Currency	Subscribed capital 30.09.2020 (previous year)	Equity capital 30.09.2020 (previous year)	Result for the year 2019/2020 (previous year)
KPS Business Transformation GmbH (2)	Unterföhring	100	TEuro	500	759	-2,386
				(500)	(764)	(1,460)
KPS Services GmbH	Unterföhring	100	TEuro	6,300	9,165	1,334
				(6,300)	(7,831)	(1,133)
KPS Consulting Verwaltungs GmbH	Unterföhring	100	TEuro	26	39	1
				(26)	(39)	(1)
KPS Consulting GmbH & Co. KG	Unterföhring	100	TEuro	5,113	4,645	-467
				(5,113)	(5,113)	(1,089)
KPS Consulting AG	Zurich/ Switzerland	100	TCHF	100	955	805
				(100)	(791)	(189)
KPS Solutions GmbH	Unterföhring	100	TEuro	80	2,969	529
				(80)	(2,440)	(-1,298)
KPS digital GmbH (1)	Dortmund	100	TEuro	25	2,554	350
				(25)	(2,554)	(1,016)
KPS Consulting A/S	Virum/ Denmark	100	TDKK	500	38,206	19,805
				(500)	(78,183)	(73,352)
KPS B.V.	Amsterdam/ Netherlands	100	TEuro	100	1,580	1,480
				(100)	(780)	(680)
KPS Consulting Inc.	Wilmington/ USA	100	TUSD	100	160	-2
				(100)	(162)	(62)
KPS Strategie-, Prozess- und IT-Consulting GmbH	Vienna/ Austria	100	TEuro	100	-84	-93
				(100)	(8)	(-49)
ICE Consultants Europe S.L.	Barcelona/ Spain	100	TEuro	59	3,951	1,993
				(59)	(3,958)	(2,756)
Infront Consulting & Management GmbH	Hamburg	100	TEuro	50	3,824	1,444
				(50)	(2,380)	(1,859)
KPS Digital Ltd. (vormals: Envoy Digital Ltd.)	London/ United Kingdom	100	TGBP	0.2	2,534	1,258
				(0.2)	(2,139)	(1,193)
KPS Consulting AS	Oslo/ Norway	100	TNOK	500	2,251	1,751
				(500)	(500)	0
KPS Sweden (3)	Stockholm/ Sweden	100	TSEK	500	2,175	-2,675
				0	0	0

[1.)] The profit for the year 2019/2020 was transferred to KPS AG in accordance with the profit transfer agreement concluded.

[2.)] The loss for the year 2019/2020 was taken over by KPS AG in accordance with the profit transfer agreement concluded.

[3.)] KPS Schweden AB was established on 19 December 2019. The entry in the company register was made on 30 January 2020. The capital stock in the amount of SEK 500,000 was paid in on 23 December 2019.

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

The consolidated financial statements are based on the annual financial statements of the consolidated companies prepared on 30 September 2020 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.

4. ACCOUNTING AND VALUATION PRINCIPLES

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

4.1 Currency translation

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

The annual financial statements of fully consolidated subsidiaries, whose functional currency is not the euro, are converted on the basis of their functional currency, which generally corresponds to the national currency, into the euro as the Group reporting currency. The conversion is carried out in accordance with the modified balance sheet date method. This means that the conversion of the items of assets and liabilities is carried out at the rate on the balance sheet date, the conversion in the income statement is transacted at the annual average rate. The annual average rate is calculated from the monthly average rates. Equity components are converted at historic rates on the dates of their relevant additions from the perspective of the Group. The currency translation difference resulting from the conversion is 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.

4.2 Revenue recognition

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

The realization of revenues is recognized on the basis of the five-step model:

Step 1: Identification of the contract with a customer
A contract is deemed to exist when an agreement between two or more parties forms the basis for enforceable rights and obligations.

Step 2: Identification of the independent performance obligation in the contract
As soon as the Group has determined the contract with a customer, the contractual conditions and the standard business practices are checked in order to identify all the promised goods or services in the contract, and to determine which of the promised goods or services are to be treated as standalone performance obligations. Goods or services should be defined as standalone if the customer can derive a use from the promised goods or services directly or in conjunction with third parties, out of the resources available to the customer and the promised goods and services are separable from other goods or services pertaining to the same contract.

Step 3: Determination of the transaction price
The total transaction price for a contract is initially established and then allocated to the individual performance obligations. The transaction price is the amount which the KPS Group is entitled to expect as a consideration in exchange for the transfer of goods or services. The amount of the consideration must take into account the effects of variable remunerations, significant financing components, non-cash effective considerations and considerations payable to the customer. However, the Group has not identified any significant variable remunerations. The KPS Group refrains from reducing its promised considerations by a financial component if the term of payment is maximally one year. If the term of payment exceeds one year, the revenues are adjusted by discount to fair value.

Step 4: Allocation of the transaction price to the performance obligations
The transaction price is allocated to each performance obligation in the amount which represents the amount of the consideration to which the KPS Group is likely to be entitled. The regulations for allocating the transaction price should not be applied if the contract only comprises a single performance obligation. The transaction price is allocated to each performance obligation on the basis of a relative individual sale (standalone selling price).

Step 5: Recording revenues for fulfilment of the performance obligations
The revenue is recorded once the performance obligation has been fulfilled as a result of transfer of promised goods or services to a customer. An asset is deemed to have been transferred when the customer has received the power of disposal over this asset.

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

a. the customer receives the benefit from the service provided by the company and the customer at the same time uses the service while this is being provided;

b. an asset is created or improved through the service provided by the company and the customer acquires the power of disposition over the asset while this is being created or improved; or

c. an asset is created as a result of the service provided by the company which does not have any alternative options for use by the company, and KPS has a legal entitlement to payment for the services that have already been provided.

If the performance obligation is fulfilled at a specific time, the power of disposition over this asset is transferred to the customer at this point in time.

The following types of revenue and contracts are present at the KPS Group:

Sale of goods and products

The revenues from the sale of software and hardware are recognized at the fair value of the consideration received or to be received without deduction of sales tax, and after deduction of rebate reductions and discounts granted. Furthermore, the amount of the revenues and the costs incurred or still to be incurred in connection with the sale must be reliably determined. Sales of goods are recorded when the significant risks and opportunities arising from the ownership of the goods are transferred to the customer. This is generally when the software and hardware are transferred to the customer. When software and hardware are sold there are generally performance obligations which have to be fulfilled at a specific time. In this respect, there are no significant differences by comparison with former reporting in accordance with IAS 18. A fixed consideration is generally agreed and does not include any variable components. Significant financing components are not generally included in contracts. The customer is usually charged when the revenue is recorded. As a rule, invoices are payable within up to 30 days.

Service contracts

Revenues from service contracts should be recorded for the relevant period because the units provided cannot be used by the company in any other way and the company has a payment entitlement for the goods or services provided so far. The revenues are recorded on the basis of input-based methods for measurement of the progress of performance, if the earnings from a service contract can be reliably assessed. If the earnings from a service contract can be reliably assessed, the order revenues and the order costs should be recorded in association with this service contract and in accordance with the progress of the performance on the balance sheet date in each case as a portion of the order costs incurred for the work carried out in proportion to the expected order costs. Any changes to the contractual work, the claims and the performance bonuses are included to the extent that they were agreed with the customer. If the earnings from a service contract cannot be reliably determined, the order revenues should only be recorded in the amount of the incurred order costs which are likely to be recoverable. Order costs are recorded as an expense in the period in which they arise. If it is likely that the overall order costs will exceed the total order revenues, the expected loss is immediately recorded as expense. An expected loss from a service contract should be recorded as expense as soon as this loss appears probable. The customer is usually charged when the revenue is recorded. As a rule, invoices are payable within up to 30 days.

License agreements

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

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

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

There were no contract initiation costs in accordance with IFRS 15.91 such as commissions on sales which the company would not have incurred without the conclusion of a contract with a customer in the business year 2019/2020.

4.3 Intangible assets

Research and development costs

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.

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.

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.

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

Other intangible assets

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

Other intangible assets are 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. At the end of the business year, a review of the useful life and the amortization methods is carried out.

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

4.4 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.

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.

At the end of the business year, a review of the useful life and the amortization method is carried out.

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

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

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

4.5 Leases

IFRS 16 was applied to leases for business years commencing on 1 October 2019.

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

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

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

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

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

On the delivery date, the leasing liability is valued at the cash value of the lease payments not yet made on this date, discounted with the underlying interest rate defined in the lease or, if this rate cannot be easily determined, with the incremental borrowing rate of the Group. Generally, the incremental borrowing rate is applied as the discount rate.

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

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

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

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

Depreciation is carried out straightline over the estimated period of use of the assets or the shorter leasing term as follows:

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

4.6 Procedure for and effects of impairment audits

Alongside the impairment tests for individual assets of property, plant and equipment, and intangible assets, impairment tests are also carried out at the level of cash-generating units (CGU). A cash-generating unit is the smallest identifiable group of assets which generate cash inflows largely independently of other assets or groups of assets.

In the previous year, goodwill was monitored at the level of the strategic business units and also the individual companies.

A reorganization of the internal reporting was carried out in the business year 2019/2020, as a result of which the monitoring of goodwill-generating units changed. The audit in accordance with IAS 36.72 revealed a necessary change at the level of the cash-generating units. As a consequence of the organizational changes, the three divisions Management Consulting / Transformation Consulting, System Integration and Products / Licenses were defined as cash-generating units. Goodwill was reallocated in accordance with IAS 36.87 on the basis of relative values. As a result of retaining the three aforementioned reportable segments, there was no consequent effect on segment reporting.

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

The Group carries out an annual audit in order to ascertain whether the goodwill has undergone impairment. The audit determined the recoverable amount of the cash-generating units on the basis of value-in-use calculations, which require the use of assumptions. The cash generating units were valued in their current use. The calculations use cash flow forecasts which are based on the financial plans approved by the executive management and are generally covered over a period of five years.

Net inflows beyond the planning period are determined for both methods on the basis of long-term business expectations using individual growth rates derived from the relevant market information.

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

The weighted average cost of capital (WACC) used for recoverability tests of goodwill and for discounting of projected cash flows for the three cash-generating units was 6.75 % on the balance sheet date. Specific country risks were weighted in the capital cost rate. The capital cost rate determined at the level of the individual country companies amounted to 6.0 % for Germany. The capitalization interest rates of the foreign cash-generating units were between 6.0 % and 7.7 %. When calculating the perpetual annuity, a growth factor of 1 % was used on the determined capital cost rate.

4.7 Financial instruments

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

Financial investments and other financial assets

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

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

Financial assets valued at amortized cost (debt instruments)

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

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

Financial assets measured at amortized cost are valued using the effective interest method and should be reviewed for impairments. Gains and losses are recorded in the earnings for the period when the asset is derecognized, modified or impaired. The valuation of the expected credit loss is carried out in line with the simplification method in accordance with IFRS 9 B5.5.35 using a valuation allowance table. This impairment matrix is based essentially on historic experiences with credit losses and current data on long-overdue receivables. In addition, outstanding receivables are continuously monitored at local and central level in order to establish the extent to which there are objective indications that the creditworthiness of the corresponding receivables is impaired. The simplified model for determining risk provision ("Expected Credit Loss Model") is applied for the expected credit default arising from trade receivables, according to which the credit loss is calculated on the basis of the total term of the financial asset. If there are objective indications of a credit default, an individual impairment is carried out for the corresponding receivables. The risk provision for the expected credit losses is calculated on non-impaired receivables on the basis of the maturity profile for receivables specific to the particular customer group. These are grouped in tiers classified according to level of risk and arrears. The historic default rates applied for this are adjusted by forward-looking information such as economic market conditions and general future risks. In individual cases, trade receivables continue to be subject to individual impairment, to the extent that substantial financial difficulties are encountered by customers or there is a breach of trust, for example in the case of default of payments.

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

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

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

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

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

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

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

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

Cash and cash equivalents

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.

Derecognition of financial assets and financial liabilities

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

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

Derivative financial instruments

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

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

Financial liabilities

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

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

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

Financial liabilities measured at fair value with an effect on income comprise financial liabilities held for trading purposes and other financial liabilities (in particular earn-out obligations in accordance with IFRS 3.58b ii) which at their first-time recognition are classified as measured at fair value with an effect on income. Transaction costs are recognized directly in the income statement. The contingent considerations (earn-out obligations) were measured on the basis of the company's individual plans based on the discounted cash-flow method. WACCs of between 6.7% and 7.7% were used to determine the obligations as at 30 September 2020. These interest rates include country-specific risks. In the reporting year 2019/2020, KEUR 1,278 (previous year: 4,759) from the revaluation of these obligations were recognized in the income statement as profit or loss. A scenario considered as possible in which the planned EBIT is 15% higher in 2020/2021 would lead to a non-material addition to the fair value of the earn-out obligation with an effect on income.

Subsequent valuation

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

Financial liabilities measured at fair value with an effect on income comprise the financial liabilities held for trading purposes and other financial liabilities that are classified at fair value as affecting income. Transaction costs are recognized directly in the income statement.

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

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

Derecognition

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

4.8 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 (or effectively permanent) differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and the balance sheet drawn up for tax purposes, on account of consolidation measures and on account of tax loss carryforwards and tax credits likely to be 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 benefit will occur in the future.

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 the statutory regulations in force or already adopted on the balance sheet date. Deferred tax assets and liabilities can be offset subject to the requirements of IAS 12.71 ff, if there is an overhang of deferred tax assets. Material effects of changes on deferred tax assets and liabilities due to changes in the tax rate or tax legislation are taken account of in the period in which the legislative procedure governing the tax rate has been concluded. These changes are generally 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 tax assets, which result from time differences and loss carryforwards, are subject to individual company-specific forecasts, including projections relating to the results of operations in the relevant Group company.

On each balance sheet date, an assessment is carried out to ascertain whether the 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 recognized deferred tax assets might be reduced if the estimates of the planned tax income and the tax benefits achievable by means of the available tax strategies are reduced or if changes to the current tax legislation restrict the time framework or the scope of realizable future tax benefits.

4.9 Treasury shares

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

4.10 Provisions

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 (with a probability of greater than 50 %) and the amount of which cannot be reliably estimated.

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 cash outflows to settle obligations with a term of more than one year are anticipated, the provisions are recognized at the cash 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, and services received which have not yet been invoiced.

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.

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

4.11 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.

4.12 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.

4.13 Principles of consolidation

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

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

The applied principles of consolidation were not changed compared with the previous year.

5. EXPLANATIONS FOR THE INCOME STATEMENT

5.1 Revenues

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

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

All revenues shown result exclusively from contracts with customers.

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

The revenues are allocated to the individual sales generators as follows:

	Year under review 2019/2020		Year under review 2018/2019	
	KEuro	%	KEuro	%
Provision of services	160,131	96%	177,782	98%
Sales of goods and hardware	3,842	2%	942	1%
Maintenance	2,473	2%	1,931	1%
Total revenues	166,446	100%	180,656	100%

In the business year 2019/2020, revenues amounting to KEUR 174 (previous year: 2,081) were recognized which relate to incoming payments from earlier accounting periods.

In the business year 2019/2020, no significant revenues arising from performance obligations, which were fulfilled in previous accounting periods, were recorded.

Transaction prices result from maintenance contracts with a residual term of up to 3.5 years, which were not yet recognized as revenues. The likely revenues to be recorded are distributed as follows:

in Keuross	Year under review 2020/2021	Year under review 2021/2022	Year under review 2022/2023	Year under review 2023/2024	Total
Revenues likely to be recognized	3,230	1,342	592	271	5,435

5.2 Own work capitalized

In the business year, internally generated intangible assets were capitalized. These are shown in the following table:

	Year under review 2019/2020 Keuro	Year under review 2018/2019 Keuro
Development of processing streams for SAP	978	2,045
Internally generated software	434	404
Total all work capitalized	1,412	2,449

5.3 Other operating income

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

	Year under review 2019/2020	Year under review 2018/2019
	KEuros	KEuros
Income from release of provisions	41	32
Income from discounts	176	203
Income from exchange-rate differences	224	298
Other income	519	83
Total other operating income	961	615

5.4 Cost of materials

The cost of materials amounted to KEUR 58,381 (previous year: KEUR 62,678) and includes expenses for hardware and software purchased amounting to KEUR 4,965 (previous year: KEUR 2,137) and expenses for services purchased amounting to KEUR 53,416 (previous year: KEUR 60,541).

5.5 Personnel expenses and employees

Personnel expenses in the year under review amounted to KEUR 67,455 (previous year: KEUR 66,410). Wages and salaries account for KEUR 59,402 (previous year: KEUR 58,783) and social security expenses account for KEUR 8,053 (previous year: KEUR 7,627).

The expenses for defined benefit pension plans included in personnel expenses amounted to KEUR 215 (previous year: KEUR 200).

On average, 632 (previous year: 586) employees (not including Members of the Executive Board and Managing Directors) were employed over the year, of which 530 (previous year: 504) were consultants and 87 (previous year: 77) were administrative employees.

	30.09.2020	30.09.2019	Change
Employees by region			
Germany	447	448	-1
Spain	81	89	-8
England	54	48	6
Denmark	18	20	-2
Switzerland	4	7	-3
Austria	5	4	1
Netherland	**3**	**2**	**1**
Norway	4	0	4
Sweden	3	0	3
Total	619	618	1
Executive Board	1	1	0
Managing Directions	14	15	-1
Consultans	516	519	-3
Administration	85	82	3
Apprentices	3	1	2

5.6 Other operating expenses

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

in KEuros	Berichtsjahr 2019/2020	Berichtsjahr 2018/2019
Travel and hospitality costs	4,354	8,024
Addition of earn-out obligations	1,278	4,759
Purchased services	3,695	3,731
Vehicle costs	1,358	2,924
Premises costs	1,372	2,320
Advertising and marketing costs	1,275	1,590
Personnel recruitment and advanced training	1,114	1,519
Legal and consulting costs	1,505	1,455
Hire costs for operating and business equipment	158	1,015
Telephone and other communication costs	624	685
Valuation allowance for receivables	559	670
Currency translation differences	325	348
Insurance policies	305	338
Capital market costs	362	309
Other expenses	2,024	2,396
Total other operating costs	20,307	32,083

5.7 Depreciation and amortization

Depreciation and amortization for the business year amounted to a total of KEUR 8,569 (previous year: KEUR 3,747). Of total depreciation and amortization KEUR 2,236 (previous year: 1,414) are attributable to amortization and depreciation for property, plant and equipment, and intangible assets, KEUR 1,294 (previous year: 2,333) to amortization and depreciation on order backlog and customer relations, and KEUR 5,039 (previous year: 0) to amortization on rights of use.

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

5.8 Financial result

Other financial income amounted to KEUR 103 (previous year: KEUR 77) and results primarily from discounting of non-current liabilities.

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

in KEuros	Review 2019/2020	Review 2018/2019
Revaluation of earn-out liabilities	1,399	550
Intrest expenses leasing liabilities	154	0
Interest and guarantee fees to banks	351	315
Compounding of non-current provisions	35	33
Changes to fair value of financial liabilities designated at fair value and recognized in the income statement	0	55
Total other operating costs	1,939	953

5.9 Income taxes

Income taxes are shown in the following table:

	Year under review 2019/2020	Year under review 2018/2019
	KEuros	KEuros
Current tax expense	-2,997	-5,528
Tax expense for previous years	54	-95
Deferred tax expenses	-1,185	-112
Income taxes	-4,128	-5,735

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 2020, tax loss carryforwards amounted to 14,532 (previous year: 16,106) KEuros for trade tax and 23,093 (previous year 24,240) 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 14.8 % and 30.4 %.

The amount of unusable tax losses for which no deferred tax asset was recognized amounts to 1,211 (previous year: 3,688) KEuros for corporate income tax and 15,090 (previous year: 10,730) KEuros for trade tax.

The following table shows a reconciliation of the expected tax expense, based on the German combined income tax rate of the company from the current rate of 30.4 % (previous year: 30.1 %) 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 15.0 % (previous year: 15.0 %) plus 5.5 % (previous: 5.5 %) solidarity surcharge and trade tax amounting to 14.6 % (previous year: 14.3 %).

in KEuros	2019/2020	2018/2019
Annual profit before income taxes	12,270	17,928
Income tax rate	30.4%	30.1%
Expected nominal tax expense	-3,733	-5,392
Tax consequences resulting from:		
Tax effects on account of tax carryforwards	488	960
Tax effects on account of non-deductible operating expenses, goodwill write-downs and other tax modifications	-542	-2,776
Deferred taxes on loss carryforwards	-753	-784
Deferred taxes on account of HB II (commercial balance sheet II) adjustments / StB (tax balance sheet effects)	331	672
Deviations of local tax rates from the average income tax rate	161	1,680
Tax effects relating to other accounting periods	-80	-95
Other effects	0	0
Actual income tax expense	-4,128	-5,735
Effective tax rate	33.6%	32.0%

in KEuros	30.09.2020		30.09.2019	
	Assets	Liabilities	Assets	Liabilities
Loss carryforwards	3,157	0	3,891	0
Pension provision	96	13	151	70
Other provisions	194	440	166	373
Trade receivables	91	37	22	94
Rights of use/ Leasing liabilities	9	89	0	0
Contract assets	0	610	0	0
Fixed assets	700	1,058	547	1,132
Other items	0	0	0	0
Total	4,247	2,248	4,777	1,669

Deferred tax assets amounting to 2,177 (previous year: 2,223) KEuros have a term of more than one year. Out of the deferred tax liabilities, 1,652 (previous year: 1,575) KEuros are non-current and 596 (previous year: 94) KEuros are current.

Deferred tax liabilities amounting to 13 (previous year: 70) KEuros relate to actuarial gains and losses from pension provisions and are recognized directly in other earnings.

5.10 Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to shareholders of KPS AG and the weighted average number of shares in free float during the business year. There are no dilution effects in the current year.

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

6. EXPLANATIONS FOR THE BALANCE SHEET

6.1 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.

6.2 Goodwill and other intangible assets

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

	Years
Software	3 - 10
Licences	5

During the course of the business year, development costs which meet the criteria defined in IAS 38.57 were capitalized in the amount of KEUR 1,412 (previous year: KEUR 2,449). 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 KEUR 1,667 (previous year: 729). The development costs are written down for the projected useful life of up to 10 years as soon as the assets can be used.

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

In the previous year, goodwill was monitored at the level of the strategic business units and the also individual companies. As part of the restructuring within the KPS Group, the internal reporting structure was modified at the same time. As a result of this, the monitoring of the units to which goodwill relates changed. The audit in accordance with IAS 36.72 yielded a necessary change to the level of the cash-generating units. As a consequence of the organizational changes, the three divisions Management Consulting / Transformation Consulting, System Integration and Products / Licenses were defined as cash-generating units. Goodwill was reallocated in accordance with IAS 36.87 on the basis of relative values.

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

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

in KEuros	2019/2020	2018/2019
KPS Services GmbH	0	1,158
KPS Consulting GmbH & Co. KG	0	7,791
KPS Solutions GmbH	0	345
Saphira Consulting A/S	0	1,755
KPS digital GmbH	0	21,178
ICE Consultants Europe S.L.	0	12,243
Infront Consulting & Management GmbH	0	10,193
KPS Digital Ltd. (vormals: Envoy Digital Ltd.)	0	7,883
Management consulting/Transformationconsulting	62,081	0
System Integration	120	0
Products/ Licenses	345	0
Total	62,546	62,546

The annual impairment tests for goodwill are carried out on 30 September. In the business year 2019/2020, there was no requirement for impairment.

6.3 Deferred tax assets

Deferred tax assets amounted to 4,247 (previous year: 4,777) 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.

6.4 Contractual assets

In the case of works contracts (fixed-price projects), KPS is entitled to advance payments as soon as specified performance-related milestones have been reached and acceptance by the customer has taken place. Up to that point, the goods and services provided are capitalized as contractual assets. Amounts recognized as a contractual asset in the amount of KEUR 8,172 (4,100) are transferred to trade receivables at the point when an invoice is issued to the customer. Contractual assets fall due within one year.

The significant increase in contractual assets in the business year 2019/2020 is due to an increase in the number of fixed-price projects.

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

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

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

in KEuros	2019/2020	2018/2019
Impairment ratio	0.07%	0.23%
Estimated book value on default	8,172	4,100
Amounts not overdue	8,172	4,100
Losses expected over the residual term	6	13
Net book value	8,167	4,087

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

6.5 Trade receivables

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

in KEuros	2019/2020	2018/2019
Trade receivables	31,112	41,596
Individual valuation allowances	-907	-526
Allowances for expected credit losses	-75	-330
Total Trade receivables	30,130	40,740

6.6 Other receivables

The following table shows the breakdown of other receivables:

in KEuros	2019/2020	2018/2019
Advance payments	853	1,217
Deposit payments	266	192
Creditor accounts in debit	7	292
Refund claims from foreign input taxes	79	154
Other receivables	380	33
Total other assets	1,586	1,889

6.7 Entitlements to income tax rebates

On the balance sheet date, entitlements arising from income tax amounted to KEUR 1,440 (previous year: KEUR 1,022).

6.8 Cash and cash equivalents

Bank balances and cash in hand amounted to KEUR 20,115 (previous year: KEUR 9,855) on the balance sheet date. The development of liquid funds is shown in the cash flow statement.

6.9 Shareholders' equity

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

6.9.1 Subscribed capital

The subscribed capital for KPS AG amounted to EUR 37,412,100 (previous year: EUR 37,412,100) on the balance sheet date and it was distributed over a total of 37,412,100 no-par shares (previous year: 37,412,100 no-par shares) each with a nominal value of EUR 1. The capital stock is fully paid up.

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

6.9.2 Authorized capital

The authorization for creation of authorized capital 2017/I approved by the Annual General Meeting on 7 April 2017 was cancelled by resolution of the ordinary Annual General Meeting held on 25 September 2020. Instead, authorized capital 2020/I was created in the amount of 18,706,050.00 euros.

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

There was no change in the authorized capital 2020/I during the business year 2019/2020.

6.9.3 Contingent capital

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

6.9.4 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.

in KEuros	2019/2020
Balance on 30.09.2018	-10,222
Capital gain from sale of treasury shares	0
Share premium on capital increase	0
Balance on 30.09.2019	-10,222
Capital gain from sale of treasury shares	0
Share premium on capital increase	0
Balance on 30.09.2020	-10,222

6.9.5 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, for example from fluctuation or expiry of the exercise right, were reported in retained earnings. On account of the resolution relating to the appropriation of the net profit passed by the Annual General Meeting on 27 March 2015, a transfer of the amount of EUR 3,000,000 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 EUR 1,000,000 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 EUR 3,401,100 from retained earnings was converted to capital stock.

6.9.6 Other earnings

Other earnings are comprised of the obligation arising from a fully insured BVG Plan (this should be classified as a defined benefit plan) of KPS Consulting AG, Zurich, Switzerland, and from translation differences arising from financial statements that were denominated in a foreign currency:

in KEuros	30.09.2020	30.09.2019
Items not classified in the income statement:		
Change in actuarial profits (losses) from pension plans	-60	-363
Items that will not be reclassified in the income statement in future:		
Exchange-rate differences	-38	69
of which changes in unrealized gains/losses	-38	69
of which realized gains/losses	0	0
Other comprehensive income before taxes	-98	-294
Taxes on other earnings	-13	-70
Other earnings after taxes	-111	-364

6.9.7 Group net profit

The development of the Group net profit recognized on 30 September 2020 is shown in the table below:

in KEuros	2019/2020	2018/2019
Balance on 01.10.	36,752	37,654
Earnings after income taxes	8,143	12,193
Share premium on treasury shares	0	0
Allocation to other retained earnings	0	0
Dividend payout	-6,360	-13,094
Balance on 30.09.	38,535	36,752

Prior to publication of the financial statements, the Executive Board proposed a dividend of EUR 0.17 for each share entitled to a dividend payment.

6.9.8 Treasury shares

The resolution adopted by the Annual General Meeting on 25 September 2020 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. According to this, 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 24 September 2025. The conditions for acquisition, appropriation and exclusion of subscription rights were explicitly regulated.

No portfolio of treasury shares was held on the balance sheet date. In the business year 2019/2020, no shares were purchased or sold.

6.10 Non-current provisions

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

in KEuros	01.10.2019	Utilization	Release	Addition	30.09.2020
Provision for personnel	2,823	-241	0	691	3,273
Provision for pensions	830	-179	0	0	651
Total	3,653	-420	0	691	3,924

The non-current provisions relate to obligations for bonus payments arising from a management loyalty program in the amount of KEUR 2,734 and to obligations for further bonuses arising from a phased-in retirement contract in the amount of KEUR 539. When the obligation for bonus payments was calculated, staff turnover was not taken into account because the company is assuming fulfilment of the contractual obligations.

The provision for pensions relates to KPS Consulting AG, Switzerland. It involves a so-called fully insured BVG Plan. This 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.

in KEuros	2019/2020	2018/2019
1. Actuarial assumptions IAS 19.144		
Discount rate (DR) as at 01.10.	0.0 %	0.9 %
Discount rate (DR) as at 30.09.	0.2 %	0.0 %
Interest rate on retirement assets as at 30.09.	0.5 %	0.0 %
Future salary increases (SI) as at 30.09.	1.5 %	1.5 %
Future pension increases (PI) as at 30.09.	0.0 %	0.0 %
Future inflation as at 30.09.	0.5 %	0.5 %
Mortality tables	BVG2015 GT	BVG2015 GT
Date of the last actuarial valuation	30.09.2020	30.09.2019
2. Reconciliation of the cash value of defined benefit pension plans IAS 19.140		
Cash value from the defined benefit obligation as at 30.09	2,636	3,011
Capital value from plan assets as at 30.09	1,985	2,181
Deficit/(surplus) as at 30.09	651	830
Adjustment to upper limit	0	0
Net debt from defined benefit pension plans (assets) as at 30.09.	651	830
of which recognized as separate (asset)	0	0
of which recognized as separate liability	651	830
3. Components of defined benefit costs in the income statement IAS 19.140		
Current Service Cost (employer)	214	190
Past Service Cost	0	0
(Gains) and losses from plan compensation	0	0
Expenses from compounding of defined benefit obligations	0	26
Interest (income) from plan assets	0	-18
Administrative costs plus costs for administration of plan assets	2	1
Components of the defined benefit costs recognized in the income statement	215	200
of which service and administrative costs	215	191
of which net interest on the net debt from defined benefit pension plans (asset)	0	8
4. Components of defined benefit costs in OCI IAS 19.140		

in KEuros	2019/2020	2018/2019
Actuarial (gain)/loss on the cash value of the defined benefit obligation	-246	173
Income from plan assets plus interest income	-57	-288
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	-303	-115
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	834	881
Components of the defined-benefit costs recognized in the income statement	215	200
Components of the defined-benefit costs recognized in the OCI	-303	-115
Contributions by the employer	-95	-136
Other	0	0
Components of the defined-benefit costs recognized in the OCI	651	830
6. Development of the cash value of the defined-benefit obligations IAS 19.140 (a), 19.141		
Cash value of the defined benefit obligation as at 01.10	3,023	2,951
Expenses of the cash value of the defined-benefit obligation	0	26
Current Service Cost (employee)	214	190
Contributions by plan participants	95	136
(Paid-out)/paid-in benefits	-452	-466
Administrative costs (plus costs for administration of plan assets)	2	1
Actuarial (gain)/loss on the cash value of the defined benefit obligation (settlement amount)	-246	173
Cash value of the defined benefit obligation as at 01.10	2,636	3,011
7. Components of actuarial gain/loss on obligations IAS 19.141		
Actuarial (gain)/loss on account of amendments to financial assumptions	0	367
Actuarial (gain)/loss on account of amendments to demographic assumptions	0	-48
Actuarial (gain)/loss on account of expectancy value adjustments	-246	-146

in KEuros	2019/2020	2018/2019
Actuarial (gain)/loss from the cash value of the defined benefit obligation	-246	173
8. Development of the capital value from plan assets IAS19.140 (a), IAS 19.141		
Capital value from plan assets as at 01.10	2,190	2,070
Interest income from plan assets	0	18
Contributions by the employer	95	136
Contributions by the plan participants	95	136
(Paid-out)/paid-in benefits	-452	-466
Other	0	0
Income from plan assets plus interest income	57	288
Capital value from plan assets as at 30.09.	1,985	2,181
8a. Actual income from plan assets		
Interest from income from plan assets	0	18
Income from plan assets plus interest income	57	288
Actual income from plan assets	57	306
9. Components of the economic benefit available IAS 19.141 ©		
Economic benefit available in the form of a rebate	0	0
Economic benefit available in the form of a reduction in future contributions	19,741	8,161
Total economic benefit available	19,741	8,161
9a. Recognizable amount under IAS 19.64		
(a) Deficit/(surplus) in the defined benefit plan		
- Cash value of the defined benefit obligation	-2,636	-3,011
+ Fair value of the plan assets	1,985	2,181
Deficit/surplus (+ = asset value; - = liability)	-651	-830
(b) Upper limit, economic benefit available	19,741	8,161
	0	0
Recognizable amount (lower than (a) and (b) if asset)	-651	-830
10. Estimate of the contributions from next year IAS 19.147 (b)		
Contributions by employees	72	132

in KEuros	2019/2020	2018/2019
Contributions by plan participants	72	132
11. Plan asset classes (non-listed price) IAS 19.142		
Cash and cash equivalents	37	3
Equity instruments	605	484
Debt securities	818	960
Real estate	454	564
Derivatives	0	0
Investment funds	0	0
Asset-backed securities	0	0
Structured debts	0	0
Other	70	170
Total interest income on the capital value (non-listed price)	1,985	2,181
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 %	2,770	3,174
DBO as at 30.09. with DR +0.25 %	2,512	2,862
DBO as at 30.09. with IR -0.25 %	2,589	3,000
DBO as at 30.09. with IR +0.25 %	2,683	3,063
DBO as at 30.09. with SI -0.25 %	2,610	2,978
DBO as at 30.09. with SI +0.25 %	2,661	3,045
DBO at as 30.09. with life expectancy + 1 year	2,687	3,063
DBO as at 30.09. with life expectancy - 1 year	2,584	2,960
SC of next year with DR +0.25 %	103	196
SC of next year with IR +0.25 %	115	219
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	19.6	21

in KEuros	2019/2020	2018/2019
Weighted average term of the cash value of the defined benefit obligation in years for active members	19.6	21
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	2,636	3,011
Cash value of the defined benefit obligation as at 30.09. for pensioners	0	0
Cash value of the defined benefit obligation as at 30.09. for suspended members	0	0

6.11 Other non-current liabilities

The other non-current liabilities relate to the following items:

in KEuros	2019/2020	2018/2019
Provisions for future earn-out payments	4,187	10,050
Valuation of financial derivatives	57	106
Total	4,244	10,156

The interest swap had a negative fair value amounting to KEUR 57 (previous year: KEUR 106) on 30 Septemer 2020.

6.12 Non-current financial liabilities

The other non-current financial liabilities amounted to KEUR 9,300 (previous year: 8,600). This total breaks down into a loan in the amount of KEUR 4,800 (previous year: 8,600) with a residual term of 2.5 years and a further loan in the amount of KEUR 4,500 with a residual term of 3 years. Both loans serve to finance company acquisitions.

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

6.13 Deferred tax liabilities

The deferred tax liabilities amounted to 2,248 (previous year: 1,669) KEuros.

6.14 Trade liabilities

Trade liabilities amounted to KEUR 7,009 (previous year: KEUR 10,523) and result primarily from purchased consulting services.

6.15 Financial liabilities

On the balance sheet date, liabilities to banks amounted to KEUR 23,300 (previous year: KEUR 8,805) with a residual term of up to one year.

6.16 Contractual liabilities

The contractual liabilities in the amount of KEUR 200 (previous year: 174) include prepayments collected from customers for future provision of services.

6.17 Other provisions

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

in KEuros	01.10.2019	Utilization	Release	Addition	30.09.2020
Provision for personnel	9,386	-9,384	-2	8,919	8,919
Provision for outstanding accounts	1,270	-1,256	-14	531	531
Provision for finan-cial statements/audit expenses	202	-202	0	198	198
Other provisions	996	-806	-25	1,522	1,687
Total	11,854	-11,648	-41	11,171	11,336

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 performance-related or other bonuses, outstanding vacation claims, obligations arising from a phase-in retirement contract, and premiums due to the employers' liability insurance association.

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

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

6.18 Other liabilities

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

	30.09.2020		30.09.2019	
in KEuros	up to 3 months	3 – 12 months	up to 3 months	3 – 12 months
Liabilities to employees	4,054	0	3,640	0
Wage and church taxes due	1,345	0	1,195	0
Liabilities for sales taxes and other taxes	2,535	0	2,212	0
Social security payments due	185	0	145	0
Earn-out Saphira Consulting A/S (Bonus)	0	547	0	547
Earn-Out Business and Digital Transformation S.L.U. (formerly: ICE Consultants Europe S.L.)	2,000	0	1,984	1,830
Earn-out Infront Consulting & Management GmbH	1,484	1,026	2,370	1,153
Earn-Out KPS Digital Ltd.	1,231	926	1,066	1,039
Other liabilities	100	0	16	0
Total other liabilities	12,934	2,499	12,628	4,569

6.19 Liabilities from income tax

The tax liabilities amounting to KEUR 2,013 (previous year: KEUR 5,388) comprise liabilities for corporate income taxes amounting to KEUR 1,836 (previous year: KEUR 4,534) and liabilities from trade taxes KEUR 177 (previous year: KEUR 854).

6.20 Reporting on financial instruments

6.20.1 Information on financial instruments by categories

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

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

The following table shows the reconciliation of balance sheet items for the categories of financial instruments, grouped by the 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 at the end of the business year
in KEuros		Book value	Book value	Fair Value	Book value	
Current assets						
Contractual assets		0	8,172	8,172	0	8,172
	(previous year)	(0)	(4,100)	(4,100)	(0)	(4,100)
Trade receivables		0	30,130	30,130	0	30,130
	(previous year)	(0)	(40,740)	(40,740)	(0)	(40,740)
Other receivables and financial assets		0	1,186	1,186	400	1,586
	(previous year)	(0)	(1,734)	(1,734)	(154)	(1,889)
Cash and cash equivalents		0	20,115	20,115	0	20,115
	(previous year)	(0)	(9,855)	(9,855)	(0)	(9,855)
Non-current liabilities						
Financial liabilities		0	9,300	9,300	0	9,300
	(previous year)	(0)	(8,600)	(8,600)	(0)	(8,600)
Other liabilities		4,244	0	0	0	4,244
	(previous year)	(10,156)	(0)	(0)	(0)	(10,156)
Leasing liabilities		24,135	0	0	0	24,135
	(previous year)	(0)	(0)	(0)	(0)	(0)
Current liabilities						
Financial liabilities		0	23,300	23,300	0	23,300
	(previous year)	(0)	(8,805)	(8,805)	(0)	(8,805)
Trade liabilities		0	7,009	7,009	0	7,009
	(previous year)	(0)	(10,523)	(10,523)	(0)	(10,523)
Other liabilities		6,667	4,885	4,885	3,881	15,433
	(previous year)	(9,439)	(4,351)	(4,351)	(3,407)	(17,197)
Leasing liabilities		4,590	0	0	0	4,590
	(previous year)	(0)	(0)	(0)	(0)	(0)

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

	Category in accor-dance wirh IFRS 7 and IFRS 9	Book Value 30.09.2020	Fair Value 30.09.2020	Book Value 30.09.2019	Fair Value 30.09.2019
Current assets					
Contractual assets	AC	8,172	8,172	4,100	4,100
Trade receivables	AC	30,130	30,130	40,740	40,740
Other receivables and financial assets	AC	1,507	1,507	1,734	1,734
Cash and cash equivalents	AC	20,115	20,115	9,855	9,855
Non-current liabilities					
Financial liabilities	AC	9,300	9,300	8,600	8,600
Other liabilities	FVTPL	4,244	4,244	10,156	10,156
Leasing liabilities	AC	24,135	24,135	0	0
Current liabilities					
Financial liabilities	AC	23,300	23,300	8,805	8,805
Trade liabilities	AC	7,009	7,009	10,523	10,523
Other liabilities	AC	4,885	4,885	4,351	4,351
Other liabilities	FVTPL	6,667	6,667	9,439	9,439
Leasing liabilities	AC	4,590	4,590	0	0
Of which aggregated by valuation categories					
Financial Loans and Liabilities measured at Amortized (AC)	AC	59,924	59,924	56,430	56,430
Financial Liabilities at Fair Value through profit or loss	FVTPL	10,911	10,911	19,595	19,595
Financial Liabilities measured at Amortized Cost	AC	73,219	73,219	32,279	32,279

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

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

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

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 TEuro			Fair value	Currency translation	Allowances		2019/2020
Financial assets at Amortized Cost (AC)		0	0	-100434.01	-559,355	0	-659,789
	(previous year)	(0)	(0)	(-73)	(-670)	(0)	(-743)
Financial liabilities measured at Amortized Costs (AC)		-435	5	0	0	0	-430
	(previous year)	(-366)	(18)	(0)	(0)	(0)	(-348)
Financial liabilities at Fair Value through Profit/Loss (FVTPF)		-402	-95	0	0	0	-497
	(previous year)	(-605)	(-4,759)	(0)	(0)	(0)	(-5,364)

In relation to financial instruments at amortized cost, the net gains or losses 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 value of the financial liabilities generally valued at fair value in stage 3 changed as follows during the year under review:

in KEuros	2019/2020	2018/2019
Opening balance	19,598	16,781
Total gains/losses	497	5,364
- Of which recorded in the income statement	497	5,364
- Of which recorded in other comprehensive income	0	0
Reclassifications	-8,005	0
Additional acquisitions	0	0
Issues	0	0
Terminations	-5,316	-2,547
Transfer from stage 3	0	0
Final balance	6,774	19,598

An agreement was agreed with the sellers of ICE Consultants Europe S.L., Barcelona, Spain, in February 2020 and the original earn-out agreement from the company acquisition was cancelled in favour of the obligation to pay a fixed amount of KEUR 10,329. This amount will be paid in three tranches. In the business year 2019/2020, KEUR 6,000 was paid.

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 input parameter is the discount rate which takes into account the default risk of the counterparties.

The total profits and losses recorded in the income statement during the business year include losses from the addition of earn-out liabilities (category FVTPL) amounting to KEUR 1,278 (previous year: 4,759), interest expenses (category FVTPL) amounting to KEUR 1,399 (previous year: 550) and profits arising from the valuation of an interest swap (category FVTPL) amounting to KEUR 49 (previous year: 55).

6.20.2 Derivative financial instruments and hedging arrangements

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. In 2018/2019, an interest swap in the amount of 10 million euros was concluded to hedge the interest-rate risk. The hedged portion still amounts to EUR 4.3 million on 30 September 2020. 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 KEUR -57 and this amount is recorded under other liabilities.

Since the prerequisites for the application of special regulations on hedge accounting in accordance with IFRS 9 are not met, the derivative financial instrument is 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.

6.20.3 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 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 ratio of the equity to the balance sheet total (equity ratio) amounted to 38.1 % as at 30 September 2020 (previous year: 45.2 %).

A maximum level of indebtedness of 2.5 was agreed in the long-term loan contract of KPS AG. The formula for calculating the level of indebtedness is as follows: Net financial indebtedness / EBITDA. Compliance with the covenants is regularly monitored within the framework of capital risk management. In the business year 2019/2020, the maximum level of indebtedness was complied with.

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

6.20.4 Liquidity risk

Liquidity risks can arise as a result of 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 planning is continuously monitored. Cash pool agreements are arranged with domestic subsidiary companies of KPS AG through its principal banks. KPS 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	30.09.2020	2020/2021	2021/2022 to 2023/2024	2024/2025ff.
Financial liabilities	32,600	23,300	9,300	0
Trade liabilities	7,009	7,009	0	0
Other liabilities	15,433	13,480	1,952	0
Liabilities from income tax	2,013	2,013	0	0

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

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.

30.09.2020			
in KEuros	< 1 year	1 – 5 years	> 5 years
Interest swap	12	7	0
Total	12	7	0

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

6.20.5 Credit and default risks

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

A risk concentration for one European major customer pursuant to IFRS 8.34 is determined. The open receivables arising from this amount to KEUR 2,238 (previous year: KEUR 5,276).

In operating business, receivables are monitored continuously. The impairment requirement is analyzed on every balance sheet date on the basis of the impairment matrix in order to determine the expected credit losses. Furthermore, if notification of insolvency is received, receivables without any prospect of payment are impaired 100% or in accordance with the notified insolvency ratio. This analysis revealed that there were no significant impairments in the reporting year 2019/2020. The default risk analysis is carried out as part of a multifactorial and holistic analysis of the debtor and the financial instrument. As part of the assessment as to whether there is a significant increase in the default risk, KPS makes use of a number of tools including individual qualitative factors that are presented in IFRS 9 and that indicate insolvency of the counterparty. On 30 September 2020, there were no indicators of any risks extending beyond the booked impairments. If any payment obligation is in arrears by more than 30 days, the assumption of the significant increase in default risk needs to be refuted. This is carried out by verifications in the form of appropriate and robust information which verifies that it does not result from payment difficulties being experienced by the counterparty.

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

Business year

in KEuros	Neither overdue nor impaired	Overdue and not impaired	Impaired	30.09.2020
Contractual assets	8,172	0	0	8,172
Trade receivables	24,925	1,977	4,209	31,112
Other assets	1,586	0	0	1,586
Total	34,683	1,977	4,209	40,870

Previous year

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

Nominal amounts for receivables due of KEUR 4,209 (previous year: KEUR 4,557) are included in the impaired receivables which were impaired by KEUR 907 (previous year: KEUR 526).

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	30.09.2020
Other loans	0	0	0	0
Trade receivables	1,332	127	518	1,977
Other assets	0	0	0	0
Total	1,332	127	518	1,977

Previous year

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

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

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

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

Business year:

in KEuros	not overdue	1 < 22	23 – 30	31 – 60	> 60	Total
Impairment rate	0.07%	0.68%	1.45%	3.72%	4.62%	
Estimated gross book value in case of default	24,767	807	550	127	870	
Expected losses over the residual term	17	5	8	5	40	76

Previous year:

in KEuros	not overdue	1 < 22	23 – 30	31 – 60	> 60	Total
Impairment rate	0.23%	1.12%	1.61%	4.14%	5.44%	
Estimated gross book value in case of default	29,405	2,475	2,283	153	31	
Expected losses over the residual term	68	28	37	5	2	140

In the previous year, an impairment for expected credit losses in accordance with Stage 3 in the amount of KEUR 190 was formed in addition to the impairment in accordance with Stage 1 and Stage 2, so that overall an impairment for expected credit losses was formed in the amount of KEUR 330.

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

KEuros	2019/2020	2018/2019
Impairments as at 01. 10.	856	212
+ Additions	0	344
- Utilization/Release	0	-30
+ Addition Impairment of expected credit losses	-255	330
Transfer to receivables with objective indication of impairment	0	0
Transfer from receivables with objective indication of valuation allowance	0	0
Valuation adjustments on account of change in the default risk	527	0
Derecognitions	-146	0
Reversals	0	0
Change in impairments that are due to new receivables less the settled receivables	0	0
Income and expenses from foreign currency translation	0	0
Model changes not due to changes in the default risk	0	0
Impairments as at 30.09.	982	856

The valuation adjustments amounting to KEUR 527 (previous year: 0) relate to overdue receivables for which only a partial incoming payment is expected. This does not result from impaired creditworthiness of the debtor but from divergences in the invoicing of specific products or services. Out of the overdue and impaired receivables on 30 September 2020 in the amount of KEUR 4,209 (previous year: 4,557), KEUR 1,570 (previous year: 1,899) are from the business year 2017/2018 and KEUR 2,639 are from the business year 2018/2019. According to information received from the company lawyers, the claims of KPS AG are fully justified. All allowances relate to the Management Consulting/Transformation Consulting segment and were recognized as expense in the income statement.

In addition, unrecoverable receivables amounting to KEUR 217 (previous year: 0) were derecognized in the year under review 2019/2020. These also relate to the Management Consulting/Transformation Consulting segment and were recognized in expense in the income statement.

If the current COVID 19 situation leads to a prolonged recession with a delayed recovery process, the impairments for expected loan losses in the case of financial assets valued at amortized cost could increase by a single-digit million euro amount.

6.20.6 Market risks

Currency risks / Exchange rate risks

The companies of the KPS Group primarily conduct their business transactions in euros, Danish krones, US dollars, British pounds, Swiss francs, Norwegian and

Swedish kronas. The business activities transacted in British pounds, US dollars, Swiss francs, Swedish and Norwegian kronas have only been of a limited nature. If the scope of business is extended, there will consequently be exchange rate risks in future. Since the development of the Danish crown is very stable, disclosure of a sensitivity analysis relating to the Danish crown has not been prepared.

Interest risks

As far as necessary, the Group is financed with short-term current account credit lines which are available for an unlimited period of time. The interest rates are regularly adjusted by the creditor. Short-term loans have also been taken out with an agreed fixed interest rate for a limited period of time. The company acquisitions carried out in the course of the reporting year 2017/2018 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 on the reference date is determined by discounting future payment flows using the interest structure curves on the reference date and the credit risk linked to the contract.

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

Price risks

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

6.20.7 Leases

This note presents information on leases in which the Group is the lessee:

6.20.8 Amounts recorded in the balance sheet

The following items are recognized in the balance sheet in connection with leases:

Book value rights of use in KEUROS	30.09.2020	01.10.2019
Buildings	22,956	20,058
Vehicles	1,487	1,807
Office equipment	4,536	2,148
Total	28,979	24,013

Additions to rights of use in KEUROS	30.09.2020	01.10.2019
Additions	10,216	0
	0	0
Total	10,216	0

Lease in KEUROS	30.09.2020	01.10.2019
Short-term	4,590	0
Long-term	24,135	0
Total	28,725	24,013

6.20.9 Amounts recorded in the income statement

The income statements shows the following amounts in connection with leases:

Depreciation in KEUROS	01.10.2019-30.09.2020
Buildings	2,451
Vehicles	1,223
Office equipment	1,365
Total depreciation and amortization	5,039

Interest expense in KEUROS	01.10.2019-30.09.2020
Interest expenses for leasing liabilities	154
	0
Total interest expense	154

Practical remedies in KEUROS	01.10.2019-30.09.2020
Expense for short-term leases	508
Expense for leases related to an asset value of low-value assets	0
Total	508

The total cash outflows shown in the cash flow statement for leases in the business year amount to KEUR 5,441.

6.20.10 Leasing activities of the Group and their accounting treatment

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

Lease agreements are reported as a right of use and corresponding leasing liability on the date on which the leasing object is delivered for application to the Group. Assets and liabilities arising from leases are recorded at cash values on first-time recognition. The leasing liabilities include the cash value of the following lease payments:

- Fixed payments (including in-substance fixed) payments less any lease incentives receivable
- Variable lease payments which are linked to an index or (interest) rate, initially valued with an index or interest (rate) on the delivery date

The valuation of the leasing liability also takes into account lease payments if it is sufficiently certain that a lessee will exercise extension options. Lease payments are discounted with the incremental borrowing rate of the lessee, i.e. the interest rate which the relevant lessee would have to pay if the lessee had to borrow the funds in order to purchase an asset with a comparable value for a comparable term with comparable certainty under comparable conditions in a comparable economic environment.

In order to determine the incremental borrowing rate, the Group uses conditions of finance borrowed from third parties

The Group is exposed to potential future increases in variable lease payments which may arise from a change in an index. These possible changes in leasing instalments are not included in the leasing liability until they become effective. As soon as changes occurring in an index or interest (rate) exert an impact on the leasing instalments, the leasing liability is adjusted with respect to the right of use. Leasing instalments are classified into repayments and interest payments. The interest portion is recognized through profit or loss so as to produce a constant periodic interest rate on the remaining balance of the liability for each period

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

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

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

Rights of use are depreciated straightline over the shorter of the two periods relating to the duration of use and the term of the underlying lease agreement. If the exercise of a purchase option is regarded as sufficiently certain from the perspective of the Group, depreciation is carried out over the duration of use of the underlying asset.

6.20.11 Extension and termination options

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

Critical judgements in determining the term of the leases

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

- If a termination option is exercised or an extension option is not exercised and the Group incurs significant costs in relation to the termination of the lease, e.g. relocation costs, it is generally deemed to be sufficiently certain that the agreement will not be terminated or extended.
- If installations have been carried out by the lessee that have a material residual value, it is generally deemed to be sufficiently certain that the Group will extend or not terminate the agreement respectively.

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

As at 30 September 2020, potential future cash outflows in the amount of KEUR 9,400 (undiscounted) were not included in the leasing liability because it was not sufficiently certain that the lease agreements are being extended (or not terminated).

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

7. EXPLANATIONS FOR THE CASH FLOW STATEMENT

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

The cash position analyzed in the cash flow statement comprises all the current liquid funds reported in the balance sheet after deduction of current bank liabilities as part of the liquid funds. At the end of the period under review, this cash position amounts to KEUR 20,116 (previous year: KEUR 855). At the end of the period under review, current bank liabilities amounted to KEUR 23,300 (previous year: KEUR 8,805) and non-current bank liabilities amounted to KEUR 9,300 (previous year: KEUR 8,600).

The increased net liquidity compared with the previous year is primarily due to increased net inflow from financing activities. This includes taking out short-term and long-term finance credits. Another positive effect was provided by the reduction in the dividend payout. The cash outflow due to operating activities essentially results from the fall in earnings for the period. The cash outflows for investments into long-term tied assets amounted to KEUR -14,839 (previous year: KEUR -5,948). An amended earn-out agreement generated an additional cash outflow in the amount of KEUR -6.000.

7.1 Inflow/outflow from operating activities

The cash flow from operating activities decreased by KEUR 1,939 from KEUR 23,979 to KEUR 22,040. This change primarily results from the change in working capital in the amount of KEUR 3,797, the reduction of increases in provisions not affecting cash flow in respect of earn-out payments amounting to KEUR 1,277, and from the increase in tax paid by KEUR 2,916.

7.2 Inflow/outflow from investment activities

The cash flow on account of investment activities changed by KEUR -8,891 from KEUR -5,948 to KEUR -14,839. Apart from investments made in development work carried out on intangible assets developed in-house, earn-out payments were also made for company acquisitions during the business year.

7.3 Inflow/outflow from financing activities

The change in cash flow on account of financial activities compared with the previous year by KEUR 20,320 to KEUR 3,060 (previous year: -17,260) primarily results from raising and repayment of long-term and short-term loans in the amount of KEUR 15,195, payment for the settlement of leasing liabilities in the amount of KEUR 5,441 and a dividend payment in the amount of KEUR 6,360.

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

Business year:

in KEuros	01.10.2019	Cash	Additions	Changes in valuation	Other	30.09.2020
Acquisition price liabilities	19,492	-11,358	1,277	0	1,442	10,854
Leasing liabilities	24,013	-5,287	10,070	-76	5	28,725
Interest-bearing liabilities	17,405	15,195	0	0	0	32,600
Total	60,910	-1,450	11,347	-76	1,447	72,179

Previous year:

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

8. EXPLANATIONS FOR SEGMENT REPORTING

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.

A distinction is drawn between the following segments:

8.1 Management consulting / Transformation consulting

This consulting segment is concerned with "transformational consulting" where the KPS Group 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 the KPS Group as an SAP consulting partner.

8.2 System integration

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

8.3 Products / Licenses

The KPS Group 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. The Group has been working with them for many years and is linked with them in various consultancy and sales partnerships.

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

Presentation by business areasin Keuros	Management consulting/Transformationconsulting		System Integration		Products/ Licenses		Other		Overall	
Earnings position	30.09.2020	prev. year	30.09.2020	prev. year	30.09.2020	prev. year	30.09.2020	prev. year	30.09.2020	prev. year
Sales	153,485	170,236	1,245	1,999	11,716	8,421	0	0	166,446	180,656
Production costs	-108,001	-117,633	-785	-1,530	-8,549	-6,135	0	0	-117,335	-125,327
Development costs	-4,338	-4,039	0	-58	-81	-147	0	0	-4,419	-4,244
Operating costs	-10,609	-10,310	-51	-603	-233	-364	-11,126	-17,258	-22,019	-28,535
EBITDA	30,538	38,224	409	-191	2,853	1,775	-11,126	-17,258	22,675	22,550
Depreciation and amortization	-7,304	-3,413	-15	0	-96	0	-1,154	-334	-8,569	-3,747
EBIT	23,234	34,811	394	-191	2,756	1,775	-12,280	-17,592	14,106	18,803
Interest	-70	-22	0	0	0	0	-1,766	-854	-1,836	-876
Taxes	-4,847	-10,410	-82	57	-575	-531	2,561	5,261	-2,942	-5,623

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

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

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

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

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

Information on geographical areas

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

in Keuro	2019/2020 in Million Euros	2019/2020 in percent	2018/2019 in Million Euros	2018/2019 in percent
Germany	83.6	50.2%	103.7	57.4%
Scandinavia	37.6	22.6%	40.8	22.6%
Spain	8.8	5.3%	12.3	6.8%
Benelux	15.2	9.1%	10.0	5.5%
United Kingdom	12.5	7.5%	9.7	5.4%
Switzerland	8.3	5.0%	3.1	1.7%
Other	0.4	0.2%	1.1	0.6%
Total	166.4	100.0%	180.7	100.0%

Dependence on important customers

One major customer (previous year: two) in accordance with IFRS 8.34 is included in the segment "Management Consulting / Transformation Consulting", the revenues generated amount to EUR 18.0 million (previous year: EUR 25.6 million).

9. OTHER EXPLANATIONS AND SUPPLEMENTARY INFORMATION

9.1 Liability relationships

In order to hedge current-account and money-market credit lines, KSP Services GmbH also has a further maximum liability guarantee amounting to KEUR 30,000. On the balance sheet date, current-account and money-market credit liabilities amounted to KEUR 18,000 (previous year: 5,005).

A subordination exists in respect of KPS Consulting AG, Zurich, in the amount of KCHF 738 and with respect to the KPS Strategie-, Prozess- und IT-Consulting GmbH in the amount of KEUR 100.

KPS AG made a commitment for KPS Business Transformation GmbH, KPS digital GmbH, KPS Solutions GmbH, KPS Services GmbH and Infront Consulting & Management GmbH in the context of exemption in accordance with Article 264 Section 3 German Commercial Code (HGB) to guarantee all the existing obligations of these companies up to 30 September 2020 in respect of their creditors. This duty to assume liability is valid until 30 September 2021.

9.2 Acquisitions and establishments after the balance sheet date

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

9.3 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.

9.4 Auditor fees

Fees amounting to KEUR 157 (previous year: KEUR 142) 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 other activities were only paid to Baker Tilly GmbH & Co. KG, Wirtschaftsprufungsgesellschaft, in the amounts indicated below.

Auditor fees:

	2019/2020	2018/2019
Services for auditing the financial statements	157	142
Other confirmation services	0	0
Tax consulting services	0	0
Other services	0	0
Total	157	142

9.5 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.

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.

9.5.1 Shareholders of KPS Business Transformation GmbH

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

Michael Tsifidaris: 9,080,050 shares

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

Dietmar Müller: 4,162,486 shares

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

Leonardo Musso: 4,103,084 shares

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

Uwe Grünewald: 4,052,390 shares

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

The total remuneration of existing shareholders on account of existing contracts of employment with Group companies amounted to KEUR 1,380 (previous year: KEUR 1,800) 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.

9.5.2 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 KEUR 455 (previous year: KEUR 573) in the business year 2019/2020, of which variable components amounted to KEUR 120 (previous year: KEUR 240). Compensation is comprised of fixed and variable components and they are due in the short term.

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

9.5.3 Extended management circle

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

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

Total compensation amounting to KEUR 19,406 (previous year: KEUR 18,918) was paid to the extended management circle.

A provision amounting to KEUR 2,736 (previous year: KEUR 2,822) 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.

9.5.4 Supervisory Board

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

Mr. Tsifidaris and Mr. Grünewald have contracts of employment with KPS Business Transformation GmbH. The expenses for the business year 2019/2020 amounted to KEUR 925 (previous year: KEUR 1,228) and include fixed and variable compensation elements.

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

9.5.5 Other related persons

A contract of employment was in place with Ms. Veronika König, daughter of Mr. Uwe Grünewald (Member of the Supervisory Board), during the business year. The expenses paid amounted to KEUR 7 (previous year: KEUR 99).

9.6 Governance bodies of the company

9.6.1 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 of KPS AG, Berg.

9.6.2 Supervisory Board

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

Mr. Michael Tsifidaris (Chairman),

Authorized Signatory KPS Business Transformation GmbH, Hamburg,

Mr. Uwe Grünewald, (Deputy Chairman)

Authorized Signatory KPS Business Transformation GmbH, Münster,

Mr. Hans-Werner Hartmann,

Lawyer, Grassau-Mietenkam.

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

9.6.3 Loans granted to 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

KPS AG issued a subordination agreement in respect of KPS Sweden AB in the amount of EUR 400,000.

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 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 2020. These are published in the German Federal Gazette (Bundesanzeiger).

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

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

Unterföhring, 15 January 2021

The Executive Board

Leonardo Musso

KPS Group

DEVELOPMENT OF THE FIXED ASSETS (GROSS PRESENTATION)

	ACQUISITION OR PRODUCTION COSTS				
	01.10.2020	**Additions**	**Disposals**	**Transfers**	**30.09.2021**
I.) INTANGIBLE ASSTES					
1. Concessions, industrial property rights and					
a.) if acquired	13,825	71	159	0	13,737
b.) if internally generated	13,081	1,475	0	0	14,556
2. Advance payments made	0	0	0	0	0
3. Goodwill	77,561	0	0	0	77,561
Intangible assets	**104,467**	**1,546**	**159**	**0**	**105,854**
II.) PROPERTY, PLANT AND EQUIPMENT					
1. Business and office equipment	3,605	1,407	2,032	830	3,810
2. Low-value assets	56	92	1	0	147
3. Advance payments received	830	0	0	-830	0
Property, plant and equipment	**4,491**	**1,499**	**2,033**	**0**	**3,957**
Total fixed assets	**108,958**	**3,045**	**2,192**	**0**	**109,811**

ACCUMULATED DEPRECIATION						BOOK VALUE	
01.10.2020	Additions	Disposals	Transfers	30.09.2021		30.09.2021	30.09.2020
9,201	1,464	159	0	10,506		3,231	4,624
2,026	1,666	0	0	3,692		10,864	11,055
0	0	0	0	0		0	0
15,016	0	0	0	15,016		62,545	62,545
26,243	**3,130**	**159**	**0**	**29,214**		**76,640**	**78,224**
2,820	392	1,978	0	1,234		2,576	785
18	8	1	0	25		122	38
0	0	0	0	0		0	830
2,838	**400**	**1,979**	**0**	**1,259**		**2,698**	**1,653**
29,081	**3,530**	**2,138**	**0**	**30,473**		**79,338**	**79,877**

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

The following table provides a schedule of the notification pursuant to Article 160 Section 1 No. 8 Stock Corporation Law:

Statutory notifier	Date of the publication in accord-ance 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 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 internal restructuring
Union Investment Privatfonds GmbH	18/09/2018	12/09/2018	Exceeding the threshold of 3 %

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)	0	0	12.79%
10,46 % (3.912.486)	0	0	10.46%
12,92 % (4.395.299)	0	0	12.92%
24,27 % (9.080.050)	0	0	24.27%
1,06 % (395.323)	0	0	1.06%
-	6,68 % (2.500.000)	0	6.68%
0	4,3 % (1.610.374)	0,39 % (144.435)	4.69%

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, 15 January 2021

The Executive Management

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 APM with the objective of facilitating comparability of performance measures over time and in a sector comparison. This is carried out by making specific adjustments to the items in the balance sheet or income statement drawn up in accordance with the applicable accounting standards. The adjustments can emerge as the result of using different calculation and valuation methods, non-uniform business activities and special effects which exert an impact on the extent to which these items are informative. The Alternative Performance Measures determined in this approach apply for all accounting periods and 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 following 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.

Equity
X 100
Total

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 and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 30 September 2019, the consolidated statements of income and comprehensive income, the statement of consolidated changes in equity and the statement of consolidated cash flows for the fi-nancial year from 1 October 2019 to 30 September 2020, and the notes to the consoli-dated 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 2019 to 30 September 2020, which is combined with the management report of KPS AG.

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 Euro-pean 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 2020 and of its results of operations for the financial year from 1 October 2019 to 30 September 2020 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 con-sistent 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 res-ervations 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 man-agement 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 Ac-cepted 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 Respon-sibilities for the Audit of the Consolidated Financial Statements and of the Group Man-agement Report" section of our auditor's report. We are independent of the group com-panies 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 appro-priate 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 2019 to 30 September 2020. These matters were addressed in the con-text of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

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

- impairment of goodwill
- impairment of deferred tax assets

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

- Facts and key problems
- Audit approach and findings
- Reference to further information

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

Impairment of goodwill

1. Goodwill amounting to EUR 62.5 million is recognized in the consolidated financial statements reported in the balance sheet under "goodwill" thus representing about 36 % 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"). Basical-ly, determined value in use is compared there to the carrying amounts of the respec-tive 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 attributa-ble. The assessments are based on the forecast figures of the individual CGUs, de-pending 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 ex-pectations 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 cur-rent 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 groups of CGUs in order to be able to evaluate a potential impairment risk of a change deemed possi-ble 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 dis-counted future cash flows.

3. The company's disclosures on goodwill are included in item 6.2 of the Notes.

Impairment of deferred tax assets

1. KPS AG exhibits deferred tax assets totaling EUR 4.2 million in its consolidated finan-cial statements under "deferred tax assets", thereof EUR 3.1 million deferred tax as-sets 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 representa-tives, and are subject to uncertainties.

2. To address this risk, we critically questioned the management's assumptions and es-timates 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 pro-cess 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. The other information is set out below:

- Letter from the Executive Board, KPS awards and KPS on the capital market in the section entitled "To the Shareholders" in the Annual Report 2019/2020,
- Group Declaration on Corporate Governance in section 7 of the combined Manage-ment Report 2019/2020,
- Disclosures on the Non-financial Group Declaration and Compliance Declaration in section 7 of the combined Management Report 2019/2020,
- Declaration by the Legal Representatives
- Alternative performance indicators used by the KPS Group.

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 2019/2020.

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 opin-ion 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 man-agement 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 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 con-trol 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 respon-sible 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 man-agement 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 posi-tion 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 consid-ered necessary to enable the preparation of a group management report that is in ac-cordance with the applicable German legal requirements and to be able to provide suffi-cient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting pro-cess for the preparation of the consolidated financial statements and of the group man-agement 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 fi-nancial 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 consoli-dated 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 state-ments 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, de-sign and perform audit procedures responsive to those risks, and obtain audit evi-dence 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 effec-tiveness 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 con-cern basis of accounting and, based on the audit evidence obtained, whether a mate-rial 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 re-lated 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 audi-tor'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 state-ments 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 di-rection, 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 fi-nancial statements, its conformity with the legal provisions and the view of the Group's position it provides.

- Perform audit procedures on the forward-looking statements presented by the legal representatives in the group management report. On the basis of sufficient appropri-ate 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 defi-ciencies 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 relation-ships 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 Audit Regulation
We were appointed as auditor of the consolidated financial statements by the Annual Shareholders' Meeting on 25 September 2020. We were engaged by the Supervisory Board on 13 November 2020. We have been the auditor of KPS AG, Unterföhring, with-out 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 is consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

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

Munich, 15 January 2021

Baker Tilly GmbH & Co. KG

Wirtschaftsprüfungsgesellschaft (Düsseldorf)

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