KPS

GROUP
ANNUAL REPORT 2016/2017

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Leonardo Musso CEO

EXECUTIVE BOARD INTERVIEW

Interview partner: Leonardo Musso (CEO)

To what extent have the business results for the business year 2016/2017 met the original expectations that you started the year with?

Leonardo Musso: Once again, KPS has grown faster than the market with growth in sales of 10.6 percent to 160.3 million euros.

How long can you maintain this pace?

Leonardo Musso: The high level of dynamic growth really is impressive and we are extremely proud of our achievements. The profit of other market shares confirms us in the strategy that we have adopted and underpins our leading market position within Europe for the area of business transformation and process implementation in retail. Nevertheless, the result cannot detract from two fundamental principles. Firstly, the success of KPS AG is the result of tough and concentrated teamwork. We have to deliver this performance day in and day out in the interests of our customers, our shareholders, and naturally also ourselves. Secondly, growth is not an end in itself. In a nutshell, our mission is not growth at any price. The fact is that we need to carefully consider our strategic measures and act with sound judgement. This is the only way we can ensure that we will enjoy success over the long term.

What measures have you taken in order to ensure the success of the company?

Leonardo Musso: We have adopted a comprehensive bundle of measures that on the one hand addresses the capital market and on the other hand our operational growth. We have expanded the Recruiting Department in order to counter the fraught situation in the market for specialist staff. Responsibility for this area and for Human Resources has been anchored directly with the Vice President Board. Our objective is to attract highly qualified male and female consultants in order to support the planned growth but we also want to invest in our existing personnel. Our staff are our capital – in other words, each individual employee. We create new career paths and empower staff to develop and keep abreast of the large number of new technological developments alongside their routine activities every day. The staff at our internal training center in the KPS Academy are continuously providing advanced training for our team.

In parallel with this, we continue to drive forward digitalization both for the benefit of our customers and to provide support for our staff here in the company itself. In the middle of the year, we launched a mobile app live as a communications platform so that each employee is kept up to date about new technological developments, new products and services, and our projects and customers, irrespective of the location or region where they happen to be.

Our Innovation Centers make use of digital collaboration platforms to engage intensively with issues such as how artificial intelligence and machine learning will influence the future. They also assess the impacts on our customers. One example of the major advances made last year was in the area of voice recognition. This is where our team is continually building new showcases for our customers which they can incorporate into their processes. The Innovation Centers are also an executive management issue in our company. Each center has an Executive Sponsor who is represented on the Board. We are currently implementing a structured process for this in order to ensure that successful ideas are supported and promoted on their journey toward implementation as they become reality.

Last year, we were also very active on the capital-market side. The objective was to familiarize a larger circle of investors with our share and this continues to be our aim. Trust-building measures are necessary to achieve this. Toward the end of 2016, an additional important foundation stone was laid when we moved to a listing on the Prime Standard of the Frankfurt Stock Exchange. The higher transparency requirements demanded by the most important segment of the German Stock Exchange (Deutsche Börse), which simultaneously encompasses a larger circle of investors, means that the KPS share attracts greater attention among private and institutional investors.

Some market players have criticized the fact that the market for the KPS share is too restricted, in other words, the actual number of share transactions is low. Do you want to further increase the free float?

Leonardo Musso: Already at the beginning of the current business year, my co-founders and I decided to reallocate a proportion of our shares. We therefore sold 4.39 million shares to selected strategic investors. Overall, this move increased the free float from just under 15 percent to 25 percent for a total of 37.41 million shares. At the same time, we also succeeded in acquiring some major institutional investors in the form of DWS, Allianz Global Investment and Union Investment. These investors are well aware of the strengths of our company. Furthermore, my former colleague on the Executive Board, Dietmar Müller, sold some 10 percent of his shares to selected investors after the balance sheet date. This means that the free float currently stands at around 39 percent. As far as we are concerned, the key factor is to maintain the balance between the two poles of anchor investors on the one hand and the high level of free float on the other hand. We believe that we have succeeded in this objective through the measures that have already been implemented.

What do you think are the strengths that institutional investors value in KPS AG?

Leonardo Musso: We are a company that combines the best of two worlds – the digital world and what you might call the analog environment. We assist our customers in making their business model fit for the next stage of industrialization and that involves extensive digitalization. Naturally, our well-defined sector focus and the high-octane pace we adopt for implementation place our company in an ideal position within the marketplace. And our track record from past years demonstrates that we are an ideal long-term investment for strategic investors with continuous sales and earnings growth that outperforms the market average.

Nevertheless, KPS has to contend with major, leading competitors in the form of IBM Consultants, Accenture and CapGemini. How do you assess your position in comparison with these global groups? What sets you apart from the competition?

Leonardo Musso: The consistent sector focus and our innovative approach to consulting give us a distinct profile that sets us apart from the competition. We empower our customers to implement digital transformation projects faster and more efficiently within a very short space of time. However, the Rapid Transformation Method simultaneously enables us to place the customer in a position where they can remain agile following the successful conclusion of the project and they are also able to respond flexibly to changes in the marketplace. The capacity to have agile control of a company is a key competitive factor, particularly in a digital world with the focus on the customer. After a project has been successfully completed, companies need to have the capacity to continuously question their processes and technologies in order to maintain their market position. They also need to be prepared to take any steps that may be necessary. Our method places customers in a position where they can accomplish this.

Our philosophy of "everything from a single source" is also a unique selling proposition. Our consultants are able to carry out a holistic analysis of the company. They combine materials management with B2B and the B2C processes of e-commerce and customer-oriented marketing and sales processes. These integrated processes result in integrated data management and precise analyses. They form the platform for emotional brand loyalty through unique customer experiences across all channels and regional boundaries. Our customers value these benefits and that is reflected in long-term business relationships.

At the end of 2016, KPS took over the Danish company Saphira Consulting A/S. What else did KPS do on the operational side in the business year 2016/2017?

Leonardo Musso: We have been active in the Scandinavian market since 2010 and we have consistently expanded our presence there in recent years. In the Nordic countries, we work very closely with our partner SAP and we are very successful there with major transformation projects, launches of Cloud products and e-commerce projects. The acquisition of Saphira Consulting A/S was a logical step for us.

In 2017, we consistently pursued our internationalization strategy and in August we made a further acquisition. Following the purchase of ICE Consultants Europe S.L. (ICE), one of Spain's leading SAP consulting partners is now part of KPS AG. These two acquisitions have consolidated our Europe-wide position as the leading transformation partner for companies who intend to align their business model on customers within a very short space of time and want to implement innovative digital processes and technologies.

At first glance, it is not obvious how Saphira in Scandinavia and ICE in Spain are mutually complementary. Where is the synergy?

Leonardo Musso: Both companies are long-standing SAP consulting partners. In particular, ICE has more than 15 years of experience in business process optimization and implementation of SAP solutions. Application Management Services (AMS) also constitute part of the portfolio of our new Spanish subsidiary. Furthermore, ICE has a loyal customer base in Spain, Argentina, Germany, Switzerland, and particularly in the Netherlands. Over the past year, the BENELUX countries have emerged as a focus within our strategy of internationalization. Saphira, too, engaged in fruitful cooperation with SAP and was successful in launching various solutions, notably in Cloud applications. ICE and Saphira bring experience and customers to the table from sectors which we want to expand in our traditional region of Germany, Austria, and Switzerland.

Both companies and their expertise will be a very good fit with our Group.

At the close of the year, KPS also took over the strategic consultant Infront Consulting and it is setting a fast pace for acquisitions. How do you intend to integrate the companies that KPS has taken over within such a short period of time?

Leonardo Musso: When acquisitions are made, careful selection of the company already takes care of half the integration. We adopt a very careful approach here and clarify at a very early stage whether the service portfolio, history, and culture of the company are a good fit with us. An assessment of the opportunities available to both sides is also carried out. The consulting boutique for digital strategies and transformation has received an array of awards as "Hidden Champion" and "Best Consultant" from leading business publications such as Capital, BrandEins and Wirtschaftswoche, as well as from the Academic Society for Management and Consulting (WGMB). The consulting approach adopted by Infront extends across sectors and provides KPS with access to new customer segments. The service portfolio of Infront was the missing module in the service portfolio of the KPS Group and we now have an outstanding position in the area of strategic consulting. We will join forces to meet the challenges of digitalization and provide truly end-to-end solutions in the interests of our customers – from the strategy to implementation of the appropriate latest technologies.

What are the opportunities and challenges confronting KPS AG in view of the increasing digitalization and verticalization in the retail industry (and in logistics)?

Leonardo Musso: We are faced with challenges that present extremely rich opportunities. Our intention is to link the analog business world with the digital environment. Many players in the marketplace have adopted a skeptical approach to increasing digitalization. However, skepticism is not a very good consultant and is generally the result of being unsure of how to proceed. As one of the leading transformation partners, we want to dispel uncertainty and ensure that our customers face the future with confidence. In this process, we provide them with holistic support in all areas: in omnichannel, B2B and B2C e-commerce, along the supply chain, and in process management. Here it is important not to forget that individuals are also the focus of analysis. Any digitalization process is useless unless the factor of people as individuals is taken into account. And this is applicable from two aspects: on the one hand in relation to the market with the focus on the consumer, and on the other hand in relation to the company itself.

Are you able to elucidate this in concrete terms?

Leonardo Musso: The success of digitalization in the company itself depends on the employees embracing the new processes and technologies. This requires an appropriate approach and a method that makes change management an equally central factor for success – in the same way as the KPS Rapid Transformation Method.

As far as the market is concerned, the individual is also the central focus as the customer. This is where groups attempt to get ever closer to the customer as e-commerce burgeons with unrelenting speed. This is demonstrated in distribution points such as those Ikea has been using for some time now and is currently expanding further. Customers no longer have to drive miles to a remote Ikea furniture store. In future, they will be able to collect their products within a radius of 20 to 30 kilometers, place an order for them, or go on a digital shopping spree. Other companies in Europe and the USA in particular are opening up HUBs or warehouses – to go the "last mile".

So it is not in fact the case that a customer orders an item on the Web and a package embarks on a long journey. Rather, the packages have to cover distances that are becoming increasingly short. Particularly in the area of logistics, the steady growth of the distribution and marketing network provides a major opportunity for additional orders. Moreover, it is by no means the case that stationary retailing is doomed to stand still or be consigned to the history books. Quite the contrary. Many companies are even going back to having a local presence. For example, in relation to food delivery or high-value goods. A lot of customers are unwilling to order a television or a HiFi system on the Internet because they value the opportunity to enjoy the haptic experience in the shop and want to have the opportunity of trying out, assessing and enjoying their prospective purchase. Other business models support the establishment of digital showrooms on a relatively small area. The products are featured within an appropriate environment there and then delivered to the customer from central warehouses. Independently of the channels – and in future there will be e-commerce and stationary sales – there is one common factor: they have a customer-centric approach. This is where we perceive numerous opportunities and consulting initiatives for us as the KPS group of companies.

Over recent years, KPS has continually increased its dividend. In 2017, shareholders received a dividend payment of 0.33 euros per share. What dividend can your shareholders look forward to in 2018?

Leonardo Musso: In line with the resolution passed at the ordinary Annual General Meeting held on 7 April 2017, around 12.3 million euros were paid out to shareholders for the business year 2015/2016 in the form of dividends. This is equivalent to a payout rate of 44.1 % of the Group earnings generated, and a dividend return of 2.4 % based on the opening share price of 13.50 euros on 4 October 2016. For the past business year 2016/2017, the Executive Board and the Supervisory Board are proposing an increase in the dividend to 0.35 euros per share. This would represent a total payout of 13.1 million euros and be equivalent to a payout rate of 66,1 % of the Group earnings generated in the period under review.

Does this mean that you want to take KPS into the league of Germany's top dividend payers?

Leonardo Musso: That is a long journey. It would mean that we would have to increase dividends over a period of at least 25 years. Up to now, only one company in Germany (Fresenius) has succeeded in this endeavor![1] Our fundamental aim is to be a liquid, continuous, but prudent dividend payer. This is a significant challenge because as a consulting company for transformation we have a relatively high capital expenditure for R&D and we want to continue with this. Our objective in the future is to successfully achieve this balancing act between investments in the company while simultaneously giving shareholders a fair deal. If we ultimately become one of Germany's dividend aristocrats, we will be very pleased to accept this accolade.

Mr. Musso, thank you very much for the interview.

1 http://www.dividendenadel.de/statistik/

KPS IN THE CAPITAL MARKET

Move to the prime standard

Effective December 2016, KPS AG moved from the General Standard to the Prime Standard of the Frankfurt Stock Exchange. Complying with the highest transparency standards increased the appeal of the KPS share to institutional shareholders. When KPS AG was admitted to the Prime Standard, the Group fulfilled a necessary prerequisite for a potential listing of the KPS share in a prime index of the German Stock Exchange (Deutsche Börse AG).

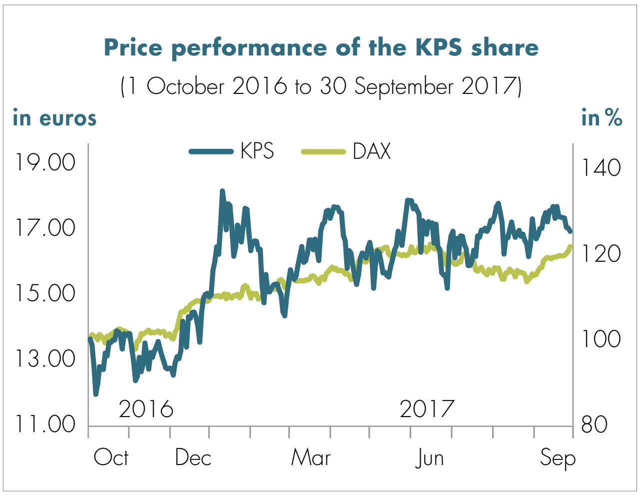
Price performance of the KPS share (1 October 2016 to 30 September 2017)

A strong fourth quarter coupled with an unexpected shift in sentiment following the US election and good economic data ensured a conciliatory finish to a challenging year on the stock market in 2016. The German DAX share index was not able to show a positive performance for the year overall until the year-end. Powered by a tailwind, international equity markets were unimpressed with the increase in interest rate by the US Central Bank (Federal Reserve) in March 2017, and increased returns in bond markets signaled a positive start to the year. The European Central Bank (ECB) held its liquidity floodgates wide open with its eye on inflation rates that continued to be below expectations.

In the second quarter of 2017, the generally satisfactory economic data was complemented by an overall easing of political risks, generating growth in value on a broad front. The German economy in particular is in impressive shape and company profits were able to increase accordingly. The stronger economic momentum exerted a positive impact on the development of the equity market in Germany as the year 2017 progressed. In the third quarter of 2017, prices started to slide backwards temporarily as a result of the strong euro. After the end of the period under review, listings posted a record high with 13,000 points in the DAX during the fourth quarter of 2017. However, the DAX German share index is still valued relatively low on an international comparison.

The share of KPS AG exceeded the price performance of the DAX in the business year 2016/2017 and posted a price gain of 25.7 % during the period under review. In particular, the price performance with a gain of 18.2 % and 12.1 % during the second and fourth quarter was extremely gratifying. During the period from October 2016 to September 2017, the DAX posted an increase of 24.3 %. On 4 October 2016, the shares of KPS AG started with a price of 13.50 euros in trading and went down to the low for the year at 11.56 euros on 7 October 2016. As the period under review progressed, the price of the KPS share rose to reach its high at 18.69 euros on 11 January 2017. The shares of KPS AG ended the year under review 2016/2017 at a closing price of 17.00 euros on 29 September 2017.

The average daily trading volume of the KPS share on all German stock exchanges increased significantly to 18,841 no-par shares (previous year: 14,733 shares) during the period under review. On 30 September 2017, the market capitalization of KPS AG rose to 633.7 million euros based on 37,278,742 shares currently in circulation. As at 30 September 2016, the stock market value with a year-end price of 13.53 euros and the same number of shares was 506.2 million euros (all information is based on Xetra prices).



Annual general meeting and dividend

On 7 April 2017, the Executive Board of KPS AG reported to the shareholders at the ordinary Annual General Meeting on the performance of the business year 2015/2016 and responded to their questions. The shareholders approved the actions of the Executive Board and the Supervisory Board, and voted with large majorities to approve the proposals put forward by the company management on all agenda items. The voting results of the ordinary Annual General Meeting can be viewed at www.kps.com under Investor Relations/Annual General Meeting.

The company paid out a total of 12,301,982.55 euros as a dividend to shareholders from the net profit amounting to 27,925,605.64 euros reported in the annual financial statements for 2015/2016. The dividend per share amounted to 0.33 euros and consequently rose by 0.03 euros per share compared with the year-earlier amount. The remaining partial amount of the net profit amounting to 15,623,623.09 euros was carried forward to new account.

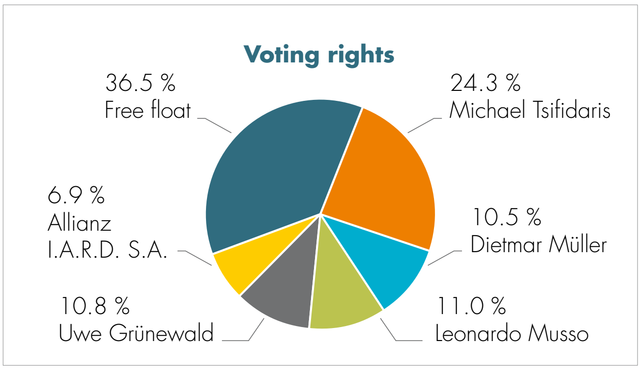
A dividend of 12.3 (previous year: 10.2) million euros corresponds to a payout rate of 44.1 % of the net profit. A dividend return of 2.4 % was calculated for the last business year based on the opening price of 13.50 euros on 1 October 2016 taking account of the paid dividends of 0.33 euros per share. The total return (price gain and dividend return) on the KPS share amounted to 28.4 % during the year under review.

The Executive Management and the Supervisory Boards propose an increase in the dividend to 0.35 euros (previous year: 0.33 euros) per share for the past business year 2016/2017.

Shareholder structure of KPS AG

The shareholder structure of KPS AG has traditionally been defined by the four founders of the company. At the end of the business year 2016/2017, they held 67.1 % of the shares and therefore represented a majority of the voting rights. Effective 30 June 2017, the four main shareholders carried out a reallocation of 4,390,000 KPS shares corresponding to 11.7 % of the capital stock. The shares were sold to the institutional investors Allianz Global Investors (around 6.7 %), Union Investment (around 3.9 %) and DWS. Following the move to the prime standard, the expansion of the circle of shareholders and the free float represents another large step in the direction of being included in a prime index on the German Stock Exchange (Deutsche Börse). On 30 September 2017, 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. On 31 May 2017, Dietmar Müller stepped down from his position as a Member of the Executive Board, and at the end of the reporting period 2016/2017 he held more than 20.9 % of the voting shares.

After the end of the reporting period, Dietmar Müller announced the start of a book-building process for institutional investors on 11 October 2017 in order to further reduce his shareholding. Effective 12 October 2017, the co-founder of the company reported a holding of around 10.5 % in KPS AG. The successful reallocation increased the free float to around 36.5 % and the KPS share gains further appeal as a result of the expansion of the shareholder structure by new institutional shareholders. This process has taken KPS AG a significant step further toward a listing in a prime index of the German Stock Exchange (Deutsche Börse). Nevertheless, the three other main shareholders will continue to remain closely associated with KPS AG as anchor shareholders and members of the governance bodies.



Status: 30 October 2017 (free float in accordance with the definition of the German Stock Exchange (Deutsche Börse) with shares in the equity capital of less than 5 %)

Investor Relations

As a company listed in the Prime Standard of the Frankfurt Stock Exchange following the uplisting from the General Standard on 23 December 2016, 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 2016/2017. 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. The Executive Board of KPS AG also communicated proactively with the financial and business press to present the profile of the company to the capital market. KPS AG intends to engage in even more intensive communication activities with players in the capital market and to enhance its public profile by means of roadshows and conferences. Since the third quarter of 2017, KPS has also included telephone conferences for analysts in its capital market communication in order to publish quarterly, half-yearly and annual figures.

Oddo Seydler Bank AG is acting 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.

Financial calendar

31 January 2018	Publication of the figures in the annual financial statements 2016 / 2017
16 February 2018	Publication of the figures for the 1st quarter 2017 / 2018
23 March 2018	Ordinary Annual General Meeting in Munich
30 May 2018	Publication of the figures for the half-year 2017 / 2018
10 August 2018	Publication of the figures for the third quarter 2017 / 2018

Analysts' research

The performance of the KPS share is continuously analyzed and evaluated by the leading banks Oddo BHF and Landesbank Baden-Württemberg (LBBW), and the investment company GBC Research. The analysts unanimously emphasize their recommendations to buy the KPS share in their latest studies on business performance and the perspectives of the company. Oddo BHF analyst Henning Steinbrink raised the target price in his report dated 1 September 2017 from 17.30 euros to 19.50 euros based on the growth in foreign business.

Shareholders' information

Sector	Software (IT service provider)
ISIN	DE000A1A6V48
Securities Identification Number (WKN):	A1A6V4
Ticker symbol	KCS
First listing	14 July 1999
Number and type of shares	37,412,100 registered no-par value ordinary shares (no-par shares)
Capital stock	EUR 37,412,100.00
Stock exchange	Frankfurt, Stuttgart, Hamburg, Berlin-Bremen, Düsseldorf and Munich, and XETRA
Market segment	Regulated market
Transparency level	Prime Standard
Designated Sponsor(s)	Oddo Seydler Bank AG
High/Low	EUR 18.69 / 11.56
Opening price	EUR 13.50
Closing price	EUR 17.00
Market capitalization	EUR 633.7 million

(Status: 30 September 2017)

Michael Tsifidaris Chairman of the Supervisory Board

REPORT BY THE SUPERVISORY BOARD

Dear Shareholders,

The Supervisory Board provides information on its activity during the business year 2016/2017 in the following report. The report focuses in particular on the continuous dialog with the Executive Board, the main issues for consultation at the meetings of the Supervisory Board, and the audit of the annual and consolidated financial statements.

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

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

During the course of the business year 2016/2017, the Executive Board regularly kept the Supervisory Board informed with prompt and comprehensive reports on issues relevant to the company relating to planning, business development, the risk position, strategic measures, as well as about important business transactions and projects. Written reports on the individual business segments were prepared in good time prior to the individual meetings of the Supervisory Board and they were then reviewed by the Supervisory Board. Any deviations in the business performance from the defined plans and targets were explained to the Supervisory Board with appropriate substantiation, and these issues were discussed by the Supervisory Board. The Supervisory Board always had adequate opportunity to engage critically with the reports and resolution proposals of the Executive Board and to obtain appropriate assurance of the lawfulness, expediency, and fit and properness of the management of the business.

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

Supervisory Board meetings: Alongside various informal meetings, the Supervisory Board convened for a total of five official meetings in the business year 2016/2017. The Members of the Supervisory Board were present in person at each of the meetings. There were also two teleconferences with all the Members of the Supervisory Board taking part. During each of the meetings, developments during the previous periods and the current business situation were explained, as well as individual segments with negative deviations from planning. The meeting held on 18 November 2016 focused specifically on reviewing the company's planning for the business year 2016/2017. Furthermore, the non-audit services of the auditor of the financial statements were approved in connection with impending company acquisitions. The auditor of the financial statements also provided the Supervisory Board with information about the European Directive on Auditing Financial Statements and other new statutory regulations . On 25 January 2017, the provisional income situation of the business year 2015/2016 was 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 placed them in the position of being able to assess the situation of the company and to review any weaknesses such that the annual financial statements were approved and the consolidated financial statements were adopted at a teleconference held on 30 January 2017. 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.

Additional focus topics of the Supervisory Board in the previous business year included the concerns and structure of the Executive Management and of the extended management team. Furthermore, the Supervisory Board provided active support for the Executive Board on the strategic initiatives of internationalization and industrialization.

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

Personnel issues: On 1 May 2015, the "Law on Equal Participation for Women and Men in Management Positions in the Private Sector and in the Public Sector" (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst) came into force. The legislation requires that the Supervisory Board defines target parameters in respect of the proportion of women for the Supervisory Board itself and for the Executive Board at regular intervals. It also defines a period within which this proportion is to be achieved. A proportion of this nature was defined for the first time in the year 2015 with a deadline for target attainment on 30 June 2017. At its meeting on 18 January 2018, the Supervisory Board defined new target parameters for 30 June 2022 which are set out in the management report for the business year 2016/2017.

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

Composition of the Supervisory Board: During the entire business year 2016/2017, the following persons were Members of the Supervisory Board.

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

Mr. Hans-Werner Hartmann is an independent member of the

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

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.

Matters relating to the Executive Board: At its meeting on 18 January 2018, the Supervisory Board passed a resolution to extend the period of office of Mr. Leonardo Musso, which originally came to an end on 31 December 2018, and to reappoint him for the period from 1 January 2019 to the end of the day on 31 December 2021. As a consequence, his contract of employment with the Executive Board was extended accordingly.

Annual and consolidated financial statements for 2016/2017: The auditing firm Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Munich (previously trading under the name of Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft), appointed as auditor by the Annual General Meeting held on 7 April 2017, audited the bookkeeping, the annual financial statements of KPS AG, and the consolidated financial statements including the management reports for the business year 2016/2017 and granted each of the documents in each case an unqualified audit opinion. There are no doubts about the independence of the auditor, who submitted the required declaration of independence. The requirements of the German Corporate Governance Code regulating the terms of engagement between the company and the auditing firm have been complied with. The auditor has submitted a comprehensive report on the result of the audit, which was carried out on the complete annual financial statements of the Group and all its subsidiary companies. The annual financial statements of the Group and all the subsidiary companies were provided, as were the report on the audit of the consolidated financial statements and the audit of the individual financial statements of the joint-stock company (Aktiengesellschaft, KPS AG). The auditor was also available to answer any additional questions.

The documents and audit reports drawn up by the auditor were submitted promptly to the members of the Supervisory Board for review. The auditor was present at the balance sheet meeting of the Supervisory Board on 24 January 2018 and reported on the key results of the audit and the auditing focuses. The Supervisory Board took note of the reports provided by the auditor and concurred with the result. The outcome of our own audit (carried out on a random test basis) is in accordance with the result of the audit of the financial statements. The Supervisory Board had no reason to raise any objections in relation to the management and the financial statements submitted.

We concur with the results of the audit of the financial statements. We have no objections on the basis of the final result of our thorough audit and discussion with the auditor of the financial statements. The Supervisory Board approved the annual financial statements of KPS AG drawn up by the Executive Board and the consolidated financial statements including the management report on 30 January 2018. The annual financial statements of KPS AG are therefore adopted. The Report by the Supervisory Board for the business year 2016/2017 was also approved in the course of these deliberations. The proposal for the appropriation of the profit submitted and explained by the Executive Board was agreed by the Supervisory Board after it had carried out its own audit and taking into account the earnings performance and financial situation of the company. The Supervisory Board considers the proposed dividend to be appropriate.

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

The Supervisory Board

Michael Tsifidaris
Chairman of the Supervisory Board

KPS GROUP

MANAGEMENT REPORT 2016/2017

1 FUNDAMENTALS OF THE GROUP

1.1 Business model and methodological expertise

KPS provides its customers with advice on strategic, process, application and technology issues, and implements holistic solutions with products from software manufacturers SAP, Hybris, Adobe, and Intershop. KPS covers the entire spectrum of retail in omnichannel and digital transformation: classic merchandise management, e-commerce, and digital customer management and marketing. Additional focuses are provided by consumer business and logistics. KPS is a hallmark for innovative methodology. Our clients benefit from a high level of efficiency and complete project transparency with the KPS Rapid-Transformation® method. As far as possible, strategic development, process design and implementation of applications are operated simultaneously. This significantly reduces project run times and project costs. Company transformations undergo tangible acceleration with verified safeguarding of the highest implementation quality. The experienced consultants at KPS deploy their outstanding sector expertise to support our customers in maintaining their competitive lead over the long term.

1.2 Service and customer structure

KPS is one of the most successful companies for business transformation consulting and process optimization. KPS is a leading management consulting firm in Europe with a sales volume of around 160.3 million euros. Market research company Lunendonk ranks KPS among the top 5 consulting firms in Germany and the top 25 on the international scene. The expansion of KPS into the leading-edge management consulting company for retail and the consumer goods industry consequently continued in the year under review. KPS has first-class client references in the area of retail and the consumer goods industry, in the process and manufacturing industries, and with service companies. Successfully structuring changes while simultaneously ensuring optimum value for money defines the high quality of consultancy which generates significant benefits for our customers.

1.3 Consultation and service portfolio

The most innovative solution will be a crucial factor in outperforming the competition in the future. A digital transformation and omnichannel strategy across the company already now constitutes the enabler for overcoming highly complex challenges. A customized approach and business management in real time require a fundamental change in operational and cultural mindset across the entire organization. The implementation of digital business models with innovative IT technologies is therefore the crucial challenge in the global market for consultancy and service packages. The consultants and specialists at KPS take account of the international and technological needs of our customers. As experienced experts with in-depth sector knowledge and a long track record of experience in implementation, we provide support for our customers in introducing innovative system solutions on the software platforms of SAP, Hybris, Adobe, and Intershop. Our guiding principle is to deliver everything from a single source so that targets do not simply remain in the realm of objectives. The transformation consultants and specialists at KPS focus on the actual implementation of recommendations for action and solutions. This provides us with a profile that is markedly distinct from the traditional competitors among strategy and process consultants.

1.4 Research and development

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

Since the business year 2015/2016, intensive development work has been carried out on standardizing SAP processing streams. In the business year 2016/2017, 4.8 (previous year: 1.5) million euros were posted as own work capitalized. The developments capitalized as assets in the business year were only partly completed on the balance sheet date and amortization amounted to 0.1 million euros.

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

1.5 Group structure and branch offices

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

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

1.6 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 Group companies. 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 EBIT, specific segment and profit-center indicators are used as indicators for controlling.

2 BUSINESS REPORT OF THE KPS GROUP

2.1 Macroeconomic development

2.1.1 Development of the global economy

Global economy gains further momentum

According to the International Monetary Fund (IMF), growth of the global economy at 3.2 % in 2016 was the slowest since the start of the financial crisis. Nevertheless, the global economic upswing that started in the second half year of 2016 continued to gather pace in the first half of 2017. The IMF has predicted a rise in economic output by 3.6 % in 2017 and by 3.7 % in 2018. This corresponds to an increase in the forecast given in October 2017 by 0.1 percentage points in each case for the two years, compared with the outlook of the IMF in April 2017. Global economic growth in 2017 and 2018 is projected to benefit from favorable financial conditions and the economic recovery in the industrial nations.[1]

Particularly in the eurozone and in the emerging economies in Europe, in Japan, in Asia's emerging countries, and in Russia, the unexpectedly high rates of expansion during the first half year of 2017 more than succeeded in compensating for the setback in economic growth experienced in the United States and in the United Kingdom. Moreover, the significant increase in gross domestic product (GDP) in the advanced economies will exert a particularly significant impact in the United States and Canada, the eurozone, and in Japan when viewed in the context of the year 2017 as a whole. The growth driver for gross domestic product in these countries continues to be the ongoing strengthening of domestic consumption.[2]

The IMF believes that economic development remains strong in China and other emerging Asian economies, while exporters of raw materials, who continue to experience a sustained difficult environment, are likely to see a slight improvement in their economic situation. The outlook is essentially getting brighter, but economic development in numerous economies continues to be weak and inflation in the industrial nations is languishing below the desired target values.[3]

2.1.2 Development in the eurozone

Moderate expansion in the eurozone

The economy in the eurozone has gained significant momentum. According to the joint forecast of the most important German-based economic research institutes, growth is projected to amount to 2.2 % in 2017 after 1.8 % in the previous year. Driving forces came from domestic and foreign business. The broadly based upswing is demonstrated by the dynamically expanding economy in virtually all eurozone countries, which is driving up employment figures and bringing down the unemployment rate in all member countries. In July 2017, the unemployment rate in the eurozone amounted to 9.1 %. In particular, the eurozone crisis countries of Portugal, Italy, Greece and Spain have posted a significant decline in unemployment, with some of them seeing reductions of more than two percentage points. Most recently, consumer prices overall were 1.5 % above the value for the year-earlier period, after inflation rose as a result of the increase in energy prices to nearly 2 % over some periods at the beginning of the year.[4]

2.1.3 Development in Germany

Continuation of the moderate upswing

The economic upturn in Germany gained significant traction in the first half year of 2017. Over the year 2017 as a whole, the joint forecast produced by the leading German economic research institutes projected an increase of 2.5 % in gross domestic product.

1 http://www.imf.org/~/media/Files/Publications/WEO/2017/October/pdf/main-chapter/exesum.ashx?la=en
2 http://www.imf.org/~/media/Files/Publicat ions/WEO/2017/October/pdf/main-chapter/exesum.ashx?la=en
3 http://www.imf.org/~/media/Files/Publications/WEO/2017/October/pdf/main-chapter/exesum.ashx?la=en
4 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2017/gd_2-17_lang.pdf

The accelerated pace of foreign business emerged as a growth driver but domestic consumption continued to be a motive force for expansion. While private and public investment expenditure continued to rise significantly, capital expenditure on plant and equipment responded robustly to the stimulation of accelerating demand from abroad. The economy has been on an upward trajectory for some time now and this has been making the situation in the labor market increasingly fraught due to the resulting shortage of specialist staff. The joint forecast indicates that the pool of registered unemployed is continuing to contract. In 2017, the unemployment rate is likely to post a more significant decline than assumed in the joint forecast with a projected rate of 5.7 %.[5] In September 2017, the unemployment rate in Germany was 5.5 % and this is the rate forecast for the coming year. This indicates that a further drop can be expected for 2018. However, unemployment will be reduced less than the increase in employment. Alongside a further rise in integration in the employment market – in particular of women and older people – this will be due to sustained migration.[6]

2.2 Sector-specific framework conditions

2.2.1 Management consultants drive forward the digital transformation in Germany

Digital transformation as a growth driver in the consulting sector

Sales for the consulting sector in Germany rose by 7.4 % in 2016 to the record value of 29.0 billion euros. This success allows German management consultants to look back on a successful year in which customers generated further demand for the support of consultants in strategy, processes and IT in the course of far-reaching, digital transformation. At the same time, the consulting firms are continuing to drive forward the strategic expansion of their digital services and their own business models. Digitalization requires concerted interplay between the different areas in the consulting sector. Management consulting firms are reacting to this development by embarking on strategic acquisitions and joint ventures. In particular, large consulting firms like KPS AG created movement in the market by takeovers in 2016 and 2017.[7]

German consultants started the year 2017 full of optimism. The Federal Association of German Management Consultants (BDU) predicted an increase in sales of 8.3 %. Especially strong demand is anticipated from the consumer goods industry with growth of 10.3 % and an increase of 10.0 % expected for retailing. Business development and innovation, and CRM and distribution are projected to be among the consulting practices with the strongest growth. If the current good business conditions continue and the prospects holding out the promise of sustained success prevail, the outlook for recruiting and growth remain good. 75 % of the large management consulting firms planned to recruit additional consultants in 2017.[8]

The Business Climate Survey carried out by the Federal Association of German Management Consultants (BDU) in the second quarter of 2017 indicated that the positive sector development was continuing. The consulting sector was very optimistic for the second half year of 2017 and only 5 % of consultants were more skeptical for the second half of the year. Consultants expressed the most satisfaction if they had clients from the sectors of automotive construction and consumer goods. The business forecast for the upcoming six months was particularly positive in both these sectors. According to the BDU, the business position of IT consultants was particularly good within consulting practices.[9]

The optimistic assessment of the information industry on the economic position of the sector was also reflected in the "Information Industry" sentiment factor produced by the Center for European Economic Research (ZEW). During the third quarter of 2017, the business climate continued to be very good for knowledge-intensive service providers such as management consultants after record values had already been achieved in the two previous quarters.[10]

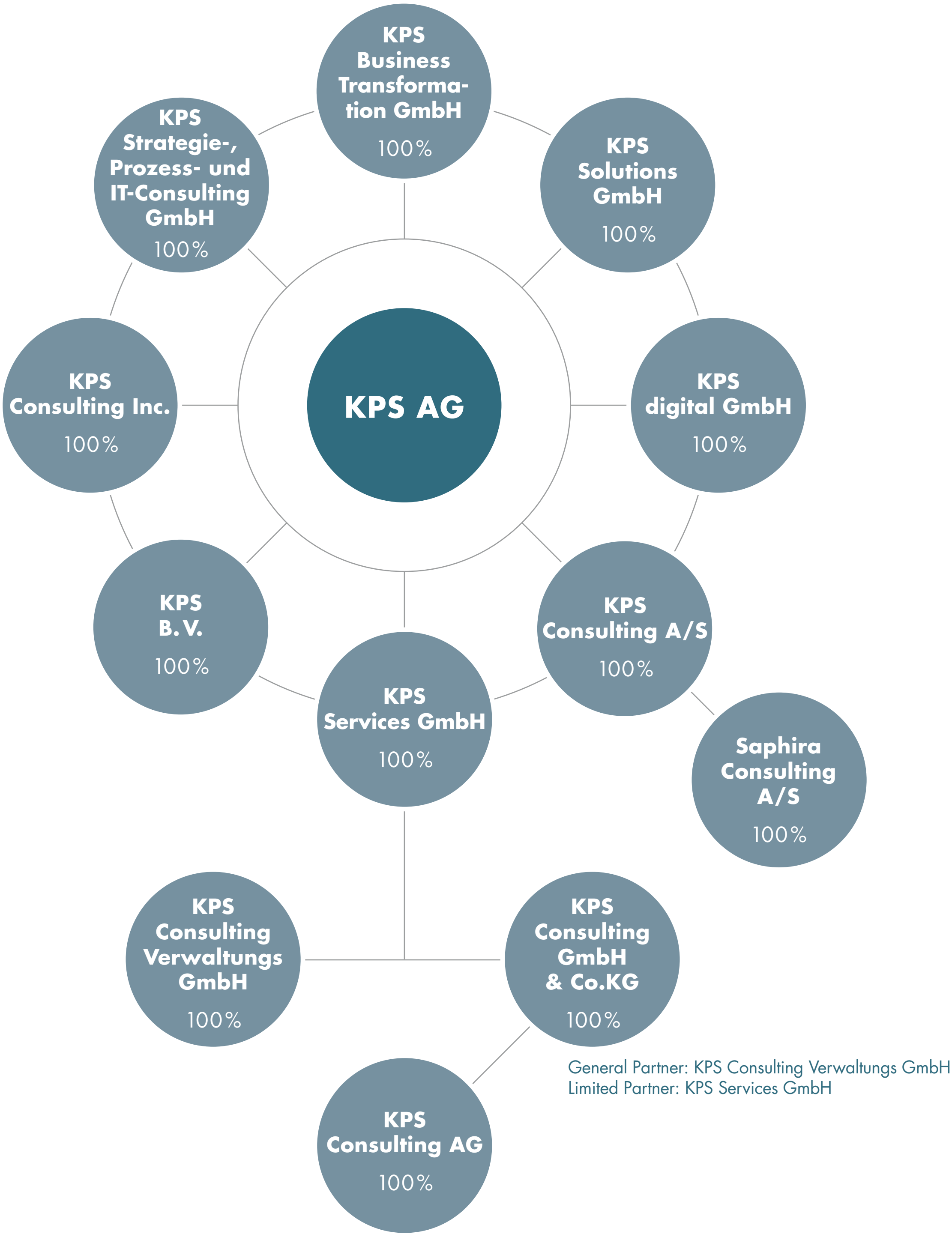
2.2.2 Positioning of the KPS Group

Digitalization as an investment focus

Ongoing digitalization will continue to shape the development of companies in stationary retailing and in the e-commerce sector. Complexity and the increasingly short-term nature of business will also accelerate the requirement of customers for consulting – particularly in the course of an economic upswing.[11] High inputs for resources such as personnel, know-how and funds will be

5 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2017/gd_2-17_lang.pdf
6 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2017/gd_2-17_lang.pdf
7 https://www.bdu.de/media/278809/ergebnisse-marktstudie-unternehmensberatung-2017.pdf
8 https://www.bdu.de/media/278809/ergebnisse-marktstudie-unternehmensberatung-2017.pdf
9 https://www.bdu.de/media/296433/geschaeftsklimabefragung_2q2017.pdf
10 ZEW (2017): Branchenreport Informationswirtschaft, Oktober.
11 http://luenendonk.de/pressefeed/luenendonk-studie-2017-managementberatung-in-deutschland

STRUCTURE OF THE KPS GROUP



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

It is by no means surprising that the Top 10 management consultancies continued their upward trajectories in the year 2016 with an increase of more than 11 % in total sales inside and outside Germany to 1.8 billion euros compared with the previous year. According to market research company Lünendonk & Hossenfelder, the leading management consultancies in Germany exceeded the forecast from the previous year by 10.9 % for the third time in succession. As in the previous year, mid-sized companies enjoyed particular success and the average value at more than 16 % was significantly above the companies' own expectations. This result was achieved with a workforce of around 7,700 employees, which was 6.5 % more than in the previous year (7,250). Meanwhile, sales with consultancy services in Germany consequently rose on the back of the overall economic situation by as much as 9.4 % to 1.2 billion euros. Since the increase in sales outstripped the growth in employees, per-capita sales and hence productivity once again went up in 2016. KPS AG was particularly efficient in a comparison of sales with the number of employees. The KPS Group has consolidated its place in the Lünendonk & Hossenfelder Ranking of German management consultancies and continues to be positioned among the Top 5 of German consulting companies.[12]

2.3 Business performance

In the business year 2016/2017, the KPS Group once again outperformed the market with growth in sales of 10.6 percent to 160.3 million euros. The high level of dynamic growth, generated in particular by new projects abroad, resulted from the acquisition of additional market shares, and it confirms the adopted strategy of being a leading consulting company throughout Europe in the area of business transformation and process implementation for retail. This approach has enabled KPS to combine the best aspects of the digital and stationary world of retail with the objective of transferring the business models of the customers to the next stage of digitalization.

The sector-centric focus and the high pace of implementation empowered by the Rapid Transformation® Method continued to be the growth drivers for the KPS group of companies over the past business year. In November 2016, an impressive three of our customers received awards from the German Institute for Service Quality (DISQ) and German news channel n-tv for the e-commerce portal implemented by KPS. The consumer study also gave high scores to established chain stores and stationary retailers for online shopping. Deichmann.com was ranked as best shop in the footwear fashion sector and Christ.de took first place in the jewelry and watches sector. KPS was represented in the food sector with the bofrost* shop.

Already in January 2017, the KPS Group succeeded in further consolidating its position as a leading provider in the area of digital transformation in Northern Europe and continuing its international expansion with the takeover of Danish consultancy Saphira Consulting A/S. For the second year in succession, Saphira Consulting received the accolade of being one of the best SAP integrators from Danish magazine Computerworld. The company has a strong presence in the rapidly growing market for SAP Cloud solutions and is one of the first firms to offer its customers SAP's powerful new platform S/4HANA. KPS has been operating in the Scandinavian market for a number of years and it was granted the status of accredited partner of SAP in 2016. KPS AG has thereby strengthened its market position in Scandinavia as one of the few consulting partners with the capability to support its customers across all areas – from strategic alignment to implementation of processes and technologies.

KPS has also been active in reviewing processes within the company and rolling out new projects. Since the middle of 2017, the consulting firm has been using a mobile app as a communication platform so that all employees can keep up to date on projects, customer aspirations, new technological developments, service packages and developments in the company wherever they happen to be irrespective of the location and region, and whenever they want. The Innovation Centers of KPS use digital collaboration platforms to carry out research into areas such as how artificial

12 http://luenendonk.de/pressefeed/luenendonk-liste-2017-die-top-10-der-deutschen-managementberatungen

intelligence and machine learning can be used to power the future development of our customers. In this process, the Innovation Centers use the structured processes of KPS to ensure implementation of promising ideas. This approach allowed the KPS Group to achieve the top position among the best management consulting firms in the biggest German consulting survey carried out by the German business magazine brand eins and Statista in June 2017 for the fourth year in succession. The leading management consulting firm for business transformation and process implementation was awarded the accolade of best consultant in the categories Consumer Goods and Retail and IT Strategy and IT Implementation among a total of more than 16,000 consulting houses.

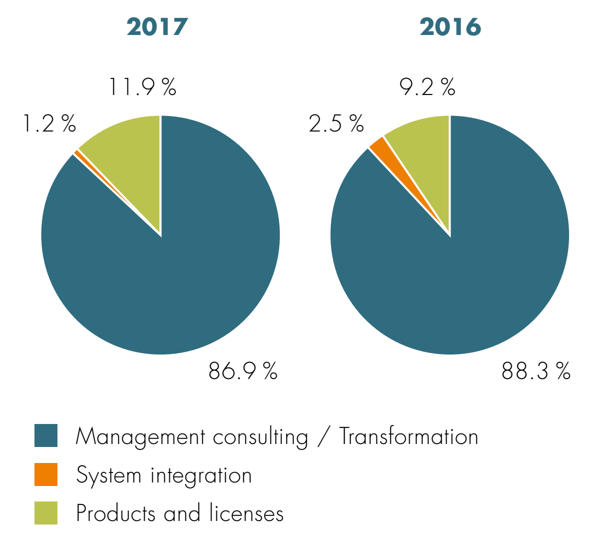
In 2017, KPS continued its global expansion trajectory with the takeover of ICE Consultants Europe S.L., a leading SAP consulting partner in Spain. ICE is headquartered in Barcelona and has a broad customer base in Spain, Germany, Switzerland, the Netherlands, and in North and South America. The multidisciplinary team with around 100 consultants supports companies in the retail, consumer-goods, automotive and pharmaceuticals sectors. ICE provides process consulting, SAP implementations and Application Management Services (AMS) for customers such as Coca-Cola, Revlon, Sanofi and SEAT. ICE ideally complements the consulting portfolio of the KPS Group with its early specialization in design thinking and the development of standard and customer-centric apps based on SAP Fiori, on SAP Customer Relationship Management and S/4 HANA upgrade and Cloud projects.

The consulting group highlighted its growth plans at the groundbreaking ceremony for the new company building of KPS at Lake Phoenix in Dortmund. Strong growth rendered necessary the change in location and the expansion of office space. KPS will create new perspectives in the new building with floor space of more than 8000 m^2. It will provide scope for intensive cooperation with its customers in the design center and process factory. The complex will enable the management and the specialist departments to gain insights into the design process, and to experience new forms of cooperation from the development of their new website, through a completely new company portal, to the rapid prototyping of future corporate processes. They will also be able to cooperate in this development.

Business performance by segments and regions

The structure of sales on the basis of reportable segments has only changed slightly compared with the previous year. 86.9 % (previous year: 88.3 %) of the sales were generated in the segment Management Consulting/Transformation Consulting. 1.2 % (previous year: 2.5 %) of the sales were generated in the segment System Integration. 11.9 % (previous year: 9.2 %) of the sales.

Revenues by segments



The breakdown of revenues by regions yields the following pictures for the business year 2016/2017: Germany was the primary sales mainstay with 130.5 million euros or 81.4 %, followed by Scandinavia with a volume of 15.8 million euros or 9.9 %. This is followed by the Benelux countries with 6.7 million euros or 4.2 %, and Switzerland with 4,0 million euros or 2.5 % and the USA with 2.6 million euros or 1.6 %. The remaining revenues amounted to 0.7 million euros or 0.4% and were largely generated in the other EU countries.

2.3.1 Order backlog

KPS includes leading large and mid-sized companies from German-speaking regions and the international arena among its customers. These companies value the high level of expertise and quality of KPS and place a high degree of trust in our competence for implementation. Major leading customers from retail and the consumer goods industry trust consultants at KPS to put their transformation initiatives into practice. Over the past business year, we have continued to expand our robust customer base, and we have further consolidated our long-standing cooperation contracts in the area of application management services and support. The order backlog and incoming orders were consistently enhanced during the period under review. The agreements for the current projects are generally contracted over a number of years, and assuming that these projects are implemented in accordance with the contracts, orders overall will extend over a projected period of some 18 months.

The average rates of utilization capacity for KPS Consultants have stabilized over the entire business year 2016/2017 at the very high level of virtually 100 %. This once again matched the already excellent capacity utilization in the reporting period 2015/2016. In a sector comparison, KPS is operating among the absolute leading field of consultants with this rate of capacity utilization.

2.4 Results of operations, capital structure and asset situation

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

in million euros	2016/2017	2015/2016
Group sales	160.3	144.9
EBITDA	26.4	23.3
EBIT	24.8	22.3
Group earnings	19.8	19.3
Earnings per share (in euros)	0.53	0.55
Cash and cash equivalents	6.7	12.6
Financial liabilities	0.0	0.0

2.4.1 Results of operations of the KPS Group

KPS was able to derive significant benefit from the economic and sector-specific development, and sales and earnings increased significantly during the business year under review compared with the previous year. Key drivers for growth included the trust placed in us by major customers from the retail sector and the consumer goods industry, with increasing demand for highly integrated transformation solutions. Furthermore, optimum capacity management of our consultants and efficient cost management contributed to the good earnings situation of KPS. The newly acquired company Saphira contributed to this result with revenues of 6.7 million euros and earnings of 0.5 million euros.

Overview of the income statement of the KPS Group

in KEuros	2016/2017	2015/2016
Revenues	160,297	144,933
Own work capitalized	5,141	1,468
Other operating income	2,820	850
Cost of materials	-67,574	-59,889
Personnel expenses	-53.270	-47,505
Other operating expenses	-21,002	-16,601
Depreciation and amortization	-814	-997
Operating result (EBIT) adjusted	25,598	22,259
Depreciation and amortization (contingent on M&A)	-843	0
Operating result (EBIT)	24,755	22,259
Financial result	1,081	-90
Earnings before income taxes*	25,836	22,169
Income taxes	-6,037	-2,893
Earnings after income taxes	19,799	19,276

* corresponds to the result from ordinary business activities

Revenues

Revenues rose by 10.6 % to 160.3 (previous year: 144.9) million euros in comparison with the previous year. The result therefore slightly exceeded the original expectations of 160 million euros. This is primarily due to the acquisition of transformation projects with prestigious customers from retail and the consumer goods industry, and the contribution made by Saphira with revenues amounting to 6.7 million euros.

One major client is included in the "Management Consulting/ Transformation Consulting" segment (previous year: one) in accordance with IFRS 8.34, and the revenues generated amount to 59.9 (previous year: 56.3) million euros.

Own work capitalized

Own work capitalized amounted to 5.1 (previous year: 1.5) million euros over the course of the business year under review. This essentially relates to intangible assets valued at 4.8 million euros developed in-house (development costs) for SAP process streams and internally generated software amounting to 0.3 million euros.

The total amount of development costs incurred in the business year 2016/2017 was capitalized under assets. No research work was carried out.

Other operating income

As was the case in the previous year, other operating income includes income from operational, additional services, such as gains from currency differences, income from releases of provisions, or discounts. Furthermore, 1.3 million euros are recognized under other operating income for the release of a partial amount of the first earn-out rate in the context of the acquisition of KPS digital GmbH (formerly: getit GmbH) and 0.6 million euros under other operating income for the release of the first earn-out rate in the context of the acquisition of shares in Saphira, because the contractually agreed target parameters were not achieved. Overall, other operating income increased by 231.7 % to 2.8 (previous year: 0.9) million euros during the period under review compared with the previous year. The strong increase essentially results from the partial release of liabilities.

Cost of materials

During the period under review, the cost trend adjusted appropriately to business performance, taking into account the significant increase in sales. The project-related cost of materials, which primarily includes the costs for subcontracted services, went up by 7.7 million euros (+12.8%) from 59.9 million euros to 67.6 million euros. The expenses for purchased hardware and software increased significantly to 3.2 (previous year: 1.2) million euros compared with the reporting period 2015/2016. The main reason for the increase was because KPS also supplied software and hardware as commercial products during the course of carrying out projects.

Personnel expenses

Personnel expenses amounted to 53.3 (previous year: 47.5) million euros and these expenses increased by 5.8 million euros (+ 12.1 %) compared with the equivalent year-earlier reporting period. At the end of the business year 2016/2017, 487 employees were working in the KPS Group (previous year: 417). As in the previous year, the growth in the workforce is due to the increase in the number of new appointments made in the course of our ambitious expansion of the workforce during the reporting period. The incorporation of employees through the company acquisition of Saphira Consulting A/S exerted an additional effect.A/S.

Other operating expenses

Other operating expenses increased by 26.5 % to 21.0 (previous year: 16.6) million euros compared with the equivalent year-earlier reporting period. They mainly include travel expenses and vehicle operating costs amounting to 8.8 (previous year: 7.1) million euros, legal, auditing and capital-market costs at 1.7 (previous year: 1.1) million euros, non-project-related subcontracted services at 2.5 (previous year: 2.0) million euros, and premises and operating costs at 2.9 (previous year: 2.4) million euros.

Depreciation and amortization

Total depreciation and amortization (depreciation and M&A-related amortization) rose to 1.7 (previous year: 1.0) million euros. The reason for the increase is amortization of intangible assets acquired in connection with the acquisition of Saphira Consulting A/S (0.8 million euros).

Financial result

The financial result of the Group rose to 1.1 (previous year: -0.1) million euros. The financial result for the business year 2016/2017 includes the release of the interest component amounting to 1.0 million from a trade tax provision.

Income taxes

The total amount of taxes on income and earnings amounting to 6.0 (previous year: 2.9) million euros includes current expenses for corporate income tax, solidarity surcharge, and trade tax amounting to 1.6 (previous year: 2.6) million euros, and expenses from deferred taxes amounting to 4.4 (previous year: 0.3) million euros.

Earnings after income taxes

The consolidated income for the period under review rose by 2.7 % from 19.3 million euros to 19.8 million euros.

2.4.2 Capital structure

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

Development of equity

The share in equity attributable to shareholders of KPS AG increased by 7.8 million euros compared with the previous year and amounted to 66.2 (previous year: 58.4) million euros on 30 September 2017. The equity ratio improved from 61.4 % to 64.3 %, compared with the balance sheet date in the previous year. A detailed explanation is provided in the statement of changes in shareholders' equity.

Development of liabilities

Apart from deferred tax liabilities amounting to 1.7 (previous year: 0.4) million euros, non-current liabilities amounting to 4.6 (previous year: 2.1) million euros primarily relate to personnel and pension obligations amounting to 2.4 (previous year: 1.8) million euros and liabilities for the earn-out payments likely to be expected amounting to 0.5 (previous year: 0) million euros.

There were no other non-current liabilities on the balance sheet date.

A decrease in current liabilities by 2.5 million euros to 32.1 (previous year: 34.6) million euros was posted by comparison with the balance sheet date for the previous year. The change essentially results from a decline in other liabilities by 1.5 to 6.8 (previous year: 8.3) million euros and a fall in tax provision by 2.2 to 1.9 (previous year: 4.0) million euros.

Trade liabilities increased by 0.8 million euros.

Advance payments received rose by 1.4 million euros and amounted to 1.5 million euros on the balance sheet date. The increase results from advance payments received for a customer-specific production order.

Development of liquidity

The earnings generated in the business year under review provided adequate liquid funds for the continuing operations and for financing reasonable additional growth of KPS.

On 30 September 2016, the KPS Group had cash amounting to 6.7 (previous year: 12.6) million euros. As in the previous year, there were no bank liabilities on the balance sheet date. Net liquidity fell by 5.9 million euros compared with the equivalent year-earlier balance sheet date.

Cash flow from current activities amounted to 16.8 million euros in the year under review compared with 20.3 million euros in the previous year. Cash flow from investment activities amounted to -12.4 (previous year: -4.0) million euros and relates to the investments initiated in fixed assets and company acquisitions. Cash flow from financial activities amounted to -12.3 (previous year: -10.2) million euros in the business year under review.

There were unused credit lines amounting to 12 million euros on the balance sheet date.

2.4.3 Net assets

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

	As at 30 September	
in KEuros	**2017**	**2016**
Non-current assets	51,910	46,207
Current assets	50,973	48,895
Total assets	102,883	95,102
Shareholders' equity	**66,188**	**58,394**
Non-current liabilities	4,644	2,115
Current liabilities	32,051	34,593
Total liabilities	36,695	36,708
Total shareholders' equity and liabilities	102,883	95,102

The KPS Group has a term-congruent balance sheet structure. The increased business scope is reflected in the balance sheet total. On 30 September 2017, this amounted to 102.9 (previous year: 95.1) million euros, increasing by 7.8 million euros or 8.2 % compared with the previous year.

Development of assets

The assets tied up in medium to long-term assets amount to 51.9 (previous year: 46.2) million euros on the balance sheet date.

These primarily relate to the goodwill from earlier acquisitions of KPS AG amounting to 32.2 (previous year: 30.5) million euros. Other intangible assets amounted to 10.0 (previous year: 2.0) million euros in the period under review. The increase results from capitalization of development costs as assets amounting to 4.8 million euros and capitalizing internally generated software as assets amounting to 0.3 million euros. Furthermore, intangible assets amounting to 3.6 million euros were capitalized as assets in the context of a company acquisition. On the balance sheet date, property, plant and equipment amounted to 0.9 (previous year 1.1) million euros.

During the year under review, 6.0 (previous year: 2.4) million euros were invested in property, plant, and equipment, and intangible assets.

The capitalized deferred taxes amount to 8.6 (previous year: 12.6) million euros.

Receivables from future production orders, trade receivables, and other assets recognized under current assets amounting to a total of 44.2 (previous year: 36.3) million euros increased by 7.9 million euros compared with the equivalent year-earlier value.

2.4.4 Appropriation of profits

Earnings after income taxes amounted to 19.8 million euros in the year under review and therefore increased by 0.5 million euros compared with the previous year (19.3). For the proposed dividend of 13.1 (previous year: 12.3) million euros, the payout rate would amount to 66.1 % of Group earnings. This dividend proposal takes account of the profitability and the dependable payout continuity of KPS AG.

2.5 Financial and non-financial performance indicators

2.5.1 Calculation of EBIT

EBIT increased by 2.5 million euros from 22.3 million euros in the previous year to a gratifying 24.8 million euros during the business year 2016/2017. Compared with the equivalent year-earlier period, the increase amounted to 11.2 %.

Based on sales of 160.3 (previous year: 144.9) million euros, the EBIT margin of 15.4 % remained unchanged at 15.4 % compared with the previous year (15.4 %).

The EBIT of 25 million euros planned in the previous year was mainly not achieved owing to the impacts of a company acquisition.

2.5.2 Calculation of sales

The original expectations of 160.0 million euros were slightly exceeded with revenues of 160.3 (previous year: 144.9) million euros.

Sales volume amounted to 139.2 (previous year: 127.9) million euros and the KPS Group generated the lion's share from management consultancy projects with prestigious customers from retail and the consumer goods industry. The other two main segments of system integration and products/licenses contributed 1.9 (previous year: 3.6) and 19.1 (previous year: 13.4) million euros respectively to annual sales.

2.5.3 Personnel

Our employees convince our customers through their expert knowledge and their exceptional commitment. This is based on a high level of specialist qualification and continuous advanced training for our employees. 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 2017, the KPS Group employed a total of 487 employees (previous year: 417). This means that the workforce increased by 70 employees or 16.8 % in the business year 2016/2017. This is essentially due to the expansion of business activity. In Germany, we employed a workforce of 457 employees (previous year: 401), which is equivalent to a share of 93.8 % (previous year: 96.2 %) in the Group overall. The average number of employees in the year under review amounted to 460 (previous year: 391) including the Executive Board and Managing Directors. The rise by 69 employees or 17.6 % is primarily based on the increase in business volume.

Personnel expenses increased by 5.8 million euros or 12.1 % to 53.3 (previous year: 47.5) million euros in the business year 2016/2017.

	30.09.2017	30.09.2016	Change
Employees by region			
Germany	457	401	56
Switzerland	12	14	-2
Denmark	16	2	14
Netherlands	2	0	2
Total	487	417	70
Employees by function			
Executive Board	1	2	-1
Managing Directors	5	2	3
Consultants	426	378	48
Administration	53	32	21
Apprentices	2	3	-1
Total	487	417	70

Alongside the Managing Directors listed above, the Member of the Executive Board of KPS AG, Mr. Leonardo Musso, (in a total of ten companies) has been appointed as Managing Director. From 30 September 2017, five persons were therefore employed as Managing Director in the KPS Group

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

KPS recorded a successful business year for the period 2016/2017. The Executive Board has a positive assessment of the economic situation and the future perspectives of the company. The revenues and the results of operations were once again improved by comparison with the previous years, with the sales planned for the business year 2016/2017 being attained while ambitious plans for EBIT only fell slightly short of the projected figures. An equity ratio of 64,3 % places KPS 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 economic development in Germany and our 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 our research activities, we regularly analyze studies and forecasts of economic institutes to gain the necessary overview of the likely development of the economy in markets relevant to us.

On the basis of the order backlog currently in place and extending over an above-average length of time, we do not expect any negative impacts over the short term, taking the present economic situation into account. However, we do not exclude the possibility that a sustained negative economic development could exert a negative impact on sales and income over the medium and long term.

3.1 Risk management targets and methods of the KPS Group

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

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

3.2 Individual opportunities and risks

3.2.1 Macroeconomic opportunities and risks

Uncertainty for the global economy has fallen

The influence of economic risks on the global economy have significantly diminished over the past months according to the joint forecast of the most important German-based economic research institutes, after they were still very high across the world at the beginning of the year. In the USA, the intentions of the government in regard to protectionism, tax reform, and infrastructure investments are only gradually being implemented. The outcome is likely to be less far removed from the previous framework conditions than expected. The election defeats for Eurosceptic parties in a number of countries in the economic area have also resulted in the possibility of political destabilization in the European Union receding. Ultimately, it is also more likely that the exit of the United Kingdom from the EU will be carried out with an extended transition deadline. Although this extends the phase of uncertainty, any abrupt breaks are thereby avoided. In the view of the joint forecast by the leading economic research institutes, there continues to be a substantial risk for global economic development from China. The cause of this risk is a very high level of company debt, now also on an international comparison.[13]

Europe has high level of indebtedness in spite of structural adjustments

Substantial risks arising from an end to the expansive monetary policy are entailed for economic development in the European Union. An increase in the level of interest rate could impact negatively on public finances and private households, which are still subject to exceptionally high indebtedness, though the overall level of debt has declined. In view of the economic tailwind and structural improvements it is however not anticipated that greater economic risks for the eurozone will emerge overall in the wake of a slow exit from the unconventional monetary policy. Nevertheless, heightened vigilance continues to be necessary in certain areas such as the balance-sheet risks of banks. Although a large number of changes have been made to institutional regulations of the European financial sector since the euro crisis, state bail-outs were once again used in Italy in order to rescue distressed banks. According to the latest joint forecast, there continues to be a problem that the most important banks in the economic area are still able to rely on public funds in the event of an emergency. Furthermore, doubts surrounding the solvency of the highly indebted countries might come to the fore if there were a rise in interest rates, and the government debt crisis might yet flare up again as a result of additional risk mark-ups.[14]

Germany less susceptible to protectionist impediments

The policy of expansive money supply over an extended period also poses a risk for the economic development of the Federal Republic of Germany which is difficult to assess. The institutes producing the joint forecast indicate that if there is a fast rise in short-term interest rates, a significant brake could be put on the economy also by the fact that banks that have granted long-term loans at low interest rates could come under pressure to align with the new rates. The German economy continues to be susceptible to disturbances on the international stage owing to its orientation toward exports, even though the risk of additional protectionist trends is now lower than projected in the joint forecast in spring 2017. Moreover, the framework conditions for German exports could deteriorate as a result of the negotiations between the EU and the United Kingdom about the modalities of Brexit. Although the German economy could grow more vigorously than anticipated on the back of tax relief extending beyond the tax exemption for the minimum living wage required under constitutional law, this could accelerate price increases in view of capacitates that are in any case operating at optimum utilization.[15]

13 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2017/gd_2-17_lang.pdf
14 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2017/gd_2-17_lang.pdf
15 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2017/gd_2-17_lang.pdf

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

Significant growth momentum is anticipated 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. Procurement structures in the company are changing, 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 sections of 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.

Project cycles are becoming shorter and shorter as a result of the ongoing march of digitalization. The outcome of this trend is that when companies select consulting partners, they are increasingly placing weight on the pool of expertise and skills they 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 is the only way in which companies can successfully implement a fast ROI process and remain agile in fiercely competitive markets.

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

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

3.2.3 Opportunities and risks in order processing

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

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

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

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

3.2.4 Opportunities and risks arising from scale effects

The interest of large companies in the consulting services of KPS has continued to grow as a result of the current size of the company, continually rising annual sales of currently around 160.3 million euros, and a consistently growing, stable consulting team of currently more than 500 employees. 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. The failure (insolvency) of one or several of these major clients therefore entails a risk to the continuing existence of the company as a going concern.

3.2.5 Personnel risk

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

3.2.6 Opportunities and risks in investment and finance

Currency risks only arise to a limited extent on account of concentration in the eurozone. This also applies to liquidity and interest-rate risk 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 loss of a client can therefore exert a very negative impact on the liquidity situation of KPS.

Effects of exchange-rate developments are not identifiable for the KPS Group on account of the customer structure and the fact that most invoicing is carried out in euros.

There is a credit risk/default risk for KPS insofar as customers, or other debtors are unable to meet their financial obligations. The creditworthiness of our customers or business partners involving large sales volumes is subject to regular review.

3.2.7 Tax opportunities and risks

The Executive Board is not currently aware of any significant fiscal risks. There is no longer a risk of trade tax payment from previous years for a subsidiary company and a tax remission certificate has been provided. The provision formed in previous years was therefore released during the business year.

3.2.8 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. However, comprehensive tests reduce these risks.

3.3 Overall assessment of opportunities and risks

The risk early identification system supports the management in identifying existing risks at an early stage and in instituting appropriate countermeasures. The risk early 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 analysis indicates that at the current time risks are not identifiable which could have the potential for loss and present a hazard to the continuing existence of the KPS Group and pose a risk for the financial position, results of operations, and asset situation.

3.4 Important features of the internal controlling and risk management system

With reference the Group accounting procedures (report pursuant to articles 289 section 5, 315 section 2 no. 5 German Commercial Code (HGB)

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

The responsibilities are clearly differentiated. The double-checking principle and the use of strict IT authorization concepts are key components of our internal accounting and controlling system.
The financial statements of the Group companies are prepared centrally by our registered office in Unterföhring on the basis of national accounting principles. A uniform account plan is used for this purpose throughout the Group and it is applicable to all

companies. After the reconciliation of the separate financial statements to the international accounting standards (HB II), our SAP Finance & Controlling System is used to carry out a system-based consolidation to the consolidated financial statements. This involves application of uniform accounting and valuation principles throughout the Group.

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

4 OUTLOOK REPORT

4.1 Macroeconomic forecast

Global economy continues strong expansion

The most important German-based economic research institutes are expecting ongoing robust expansion of the global economy for the years 2018 and 2019, even though growth rates are predicted to fall toward the end of the forecast period. In 2018, growth is projected to amount to 3.1 %. An increase of 2.9 % is expected for 2019. This corresponds to a projected rise of 0.1 percentage points for 2018 and 0.2 percentage points for 2019 compared with the spring report.[16]

According to the joint forecast, the pace of growth for gross domestic product in 2018 and 2019 is expected to slow down in the USA, Japan and the United Kingdom especially on account of declining domestic consumption. The economy of the United Kingdom will also be negatively impacted by weak investment activity by companies. The reason for this is the uncertainty associated with Brexit. The advanced economies and the emerging countries will make equal contributions to expansion of the global economy during the period of the forecast. The emerging economies will compensate for their lower share in the global gross domestic product (GDP) by means of higher growth rates.[17]

Nevertheless, the economic research institutes making the joint forecast also expect a decline in economic expansion in the Asian region as a result of the structural change in the Chinese economy. As the proportion of domestic value added increases, there will be a brake on import growth. The People's Republic of China is also continuing to keep to its strategy of transformation from an export-driven economy to one that is more strongly supported by domestic demand.[18]

Economy in the eurozone is increasingly operating at full capacity

The economic institutes producing the joint forecast believe that the pace of the economy in the eurozone is slowing down slightly. This means that the degree of capacity utilization will reach its usual level and will rise more slowly. Growth of gross domestic product is projected to be 2.0 % in 2018 and 1.8 % in 2019 with less buoyant export business as a result of the increase in value of the euro. By contrast, capital expenditure and private consumption will increase at a rate that is barely changed.[19]

The forecast predicts that the ongoing economic recovery should also be reflected in a further improvement in the employment market situation. In 2018, the unemployment rate is projected to fall to 8.6 % on average, with 8.2 % being projected for 2019. Since energy and food prices are not likely to rise noticeably, the institutes producing the joint forecast are anticipating a fall in the inflation rate to 1.4 % in 2018. Meanwhile, the core inflation rate will gradually increase so that the upward trend in prices is likely to be rather higher at 1.6 % in 2019.[20]

Growth in Germany continues unabated

In the opinion of the most important German-based economic institutes, the pace of expansion for the economy in Germany will only ease slightly. According to their forecast, gross domestic product is projected to increase by 2.0 % in 2018 and by 1.8 % in 2019. Since gross domestic product will undergo a slightly greater rise than the production potential in 2018, the level of utilization of the macroeconomic capacities is likely to increase further. In 2019, the projection of the joint forecast indicates that economic output will rise at the same pace as production potential.[21]

16 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2017/gd_2-17_lang.pdf
17 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2017/gd_2-17_lang.pdf
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20 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2017/gd_2-17_lang.pdf
21 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2017/gd_2-17_lang.pdf

The joint forecast suggests that a powerful global economy, in particular the ongoing upswing in the eurozone, should stimulate German exports. However, although an increase in the value of the euro is expected to depress competitiveness and consequently the development of gross domestic product in Germany, strong domestic consumption should counter this trend and exert a positive impact on imports.[22]

In the view of the economic researchers, the position on the German employment market is likely to undergo further improvement. The number of people gainfully employed is projected to increase by 1.1 % in 2018 and 0.9 % in 2019. Meanwhile, the unemployment rate in Germany is expected to fall consistently, irrespective of the increasing number of people in the labor market. The unemployment rate is projected to be 5.7 % in 2018 and 5.5 % in 2019. 2018 will also witness rising wage costs that will entail an increase in consumer prices of 1.7 % while a rise of 1.8 % is expected in 2019.[23]

4.2 Sector-specific forecast

Enormous need for digital transformation of the value chain

Over the winter half-year 2017/2018, 43 % of management consultants in Germany are expecting a further improvement in business prospects. Only 7 % are anticipating an unfavorable development. IT and personnel consultants are particularly optimistic about the situation following the business climate survey carried out by the Federal Association of German Management Consultants (BDU) during the third quarter of 2017.[24] The sustained need for project support and outsourcing is also leading to optimistic outlooks in the IT service sector. IT consulting and system integration companies, in particular, are benefitting from this development with a focus on project business. IT consulting companies are expecting sales growth of 11 % in 2018.[25]

Digital business models and process optimizations are a key factor

According to the Lünendonk Study on the market for IT consultancy and IT service, the digitalization strategies of companies in 2018 are focused on the areas of "Digital Operational Excellence" and "Digital Customer Experience".[26] Priorities are the automation of processes and the digitalization of customer interfaces. 65 % of the companies are concentrated on optimization of processes through networking, automation, and standardization. Almost as many companies will also work on improving the customer journey as a result of the use of Data Analytics and the development and implementation of product and service innovations.[27]

Increase in the IT budget through digital transformation projects

The prevailing combination of locally installed software solutions and Cloud application in companies is leading to an increasing requirement for consultancy in the areas of system integration and IT architecture in the digitalization of business models. The Lünendonk Study on the market for IT consultancy and IT service indicates that more than 50 % of companies are planning to increase their budget for IT consultancy and system integration. A further 30 % are planning to spend equivalent amounts to their expenditures in the previous year. However, 62 % of companies intend to spend more money on applications development such as software to implement digital business models. Digital transformation is still in the initial stages with a large number of companies that are planning increases in expenditure. Nevertheless, application companies are also increasing expenditure in an advanced phase of digitalization for their business models because they are generating an increasing proportion of value added from business processes like production, supply chain, or marketing from the Cloud. This includes companies in retail (online shops, e-commerce) and in particular customers of KPS.[28]

Digital transformation is also a challenge for consultancy companies

Agile methods such as the KPS Rapid Transformation® method as the unique selling proposition of KPS have now become the preferred route for implementation. Accordingly, 86 % of consulting firms are planning to train their consultants in agile methods or intensifying the necessary input in this area. Digitalization is therefore not simply a challenge for the customers of consulting firms but also

22 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2017/gd_2-17_lang.pdf
23 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2017/gd_2-17_lang.pdf
24 https://www.bdu.de/media/351688/geschaeftsklimabefragung_3q2017.pdf
25 Lünendonk Study – 2017 The Market for IT Consultancy and IT Service in Germany (2017 Der Markt für IT-Beratung und IT-Service in Deutschland)
26 Lünendonk Study – 2017 The Market for IT Consultancy and IT Service in Germany (2017 Der Markt für IT-Beratung und IT-Service in Deutschland)
27 http://luenendonk.de/pressefeed/luenendonk-studie-2017-unternehmen-kommen-mit-digitaler-transformation-voran-und-investieren-stark-in-digitale-geschaeftsmodelle
28 Lünendonk Study – 2017 The Market for IT Consultancy and IT Service in Germany (2017 Der Markt für IT-Beratung und IT-Service in Deutschland)

for the sector itself. Lünendonk points out here that the majority of consulting firms are still a long way away from completing the move from classic procedure models to agile development.[29]
Conversely, the pressure on recruitment is intensified by the fact that customers' need for consultancy is also defined by trend technologies such as blockchain, artificial intelligence or bots. After all, increasing demand on the part of customers for turnkey solutions to the digitalization of their business models (consultancy, development, implementation) strengthens the pressure on all consulting firms to offer "end-to-end" consulting and to be able to deliver it.[30]

4.3 Forecast for the KPS Group

Comprehensive investments are envisaged in the area of human-resource expansion and development with the aim of increasing sales. Significant investments have also been planned to power our further expansion across Europe. In Denmark, one acquisition was already made in the business year 2016/2017. We are not anticipating any key changes for cost structure. Our assessment for the business year 2017/2018 results from a number of factors including the positive development of past reporting periods, and is mainly based on the excellent consulting portfolio for our focus sectors of retail and the consumer goods industry.

The Executive Board and the management at KPS AG have an extremely positive overall assessment of the situation. We are in an excellent position to address the challenges of the future. In addition, KPS has a sound financial structure and sound results of operations. As well as increasing sales, we want to consistently concentrate on optimizing income.

When making plans for the business year 2017/2018, the Executive Board is continuing to assume stable growth. We made a successful start to the new business year 2017/2018. During the first quarter, our sales and orders booked have undergone satisfactory development in line with our expectations. The Executive Board is anticipating an increase in sales to a projected figure of 160 –170 million euros and an EBIT of 23 – 26 million euros for the current business year. These values reflect the forecast for ICE Consultants Europe S.L., Barcelona, Spain recently acquired on 2 October 2017, and Infront Consulting & Management GmbH, Hamburg, Germany, acquired at the beginning of 2018.

On the basis of the status quo, the Executive Board is assuming that sales and earnings will develop according to the current forecast for the business year 2017/2018. When this report was published, the current business development was in line with expectations expressed in the key financial indicators. Our forecast is based on factors and projections about future business and economic developments known to us today. If major changes occur in business developments and framework conditions which cannot be predicted from today's perspective, there is an underlying risk that the projected sales and earnings targets may not be achieved.

5 COMPENSATION REPORT

5.1 Compensation payments to the Members of the Executive Board

The compensation payments for the Executive Board are made up of fixed and variable components. Defined annual salary payments are agreed for each Member of the Executive Board as fixed elements, and these are payable in twelve equal monthly installments at the end of each month. The variable component is linked with the attainment of predetermined success indicators in the KPS Group and is paid out in the following business year. The remuneration for the Executive Board amounted to a total of 1,028 (previous year: 1,250) KEuros, and the variable proportion amounted to 47 % (previous year: 48 %) of the total compensation payments. The reason for the decrease in the compensation is that since June 2017 the Executive Board has only one member. The individualized compensation payments made to the Members of the Executive Board are not published, and an appropriate resolution on this matter has been passed by the Annual General Meeting. A vehicle is provided to each Member of the Executive Board for official and private use. The Executive Board members also receive an allowance toward private health insurance. The expenses for this item amounted to 59 KEuros in the business year 2016/2017. Furthermore, a Group accident insurance has been concluded.

29 Lünendonk Study – 2017 The Market for IT Consultancy and IT Service in Germany (2017 Der Markt für IT-Beratung und IT-Service in Deutschland)
30 Lünendonk Study – 2017 The Market for IT Consultancy and IT Service in Germany (2017 Der Markt für IT-Beratung und IT-Service in Deutschland)

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 2016/2017, the compensation for the Supervisory Board amounted to a total of 55 (previous year: 55) KEuros. In the business year 2016/2017, 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)

6.1 Composition of the subscribed capital

On 30 September 2017, 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.

During the year under review, the company did not acquire any of the company's own shares, and none of the company's own shares were sold. The total portfolio of own shares held by the company (treasury shares) amounted to 133,365 (previous year: 133,365) shares on the balance sheet date of 30 September 2017. The same rights and obligations are associated with all shares.

6.2 Restrictions on voting rights

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 the statutes of the company, insofar as the regulation defined in Article 44 sentence 1 Securities Trading Law (WpHG) is not applicable. Pursuant to this regulation, the voting right vested in shares which make up a major shareholding in the company pursuant to Articles 33 and 34 Securities Trading Law (WpHG) cannot be used during the time in which the notification obligations in respect of the company and the Federal Financial Supervisory Authority (BaFin) have not been complied with pursuant to Articles 33 Section 1 or 2 Securities Trading Law (WpHG).

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 2017:

	shares	in %
Michael Tsifidaris	9,080,050	24.27 %
Dietmar Müller	7,822,286	20.91 %
Leonardo Musso	4,103,084	10.97 %
Uwe Grünewald	4,052,390	10.83 %

KPS AG did not receive any further notifications during the business year 2016/2017 relating to direct or indirect shareholdings which exceed 10 % of the voting rights. The company has not, therefore, received any notification beyond the listing outlined above which includes a shareholding in excess of 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 shareholdings

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

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

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

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

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

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

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

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

There was no change in the authorized capital 2017/I during the business year 2016/2017.

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

If there is a change in control resulting from a takeover offer, the members of the Executive Board will receive a severance payment amounting to 75 % of the annual target income on the date of the contract termination if they exercise the contractually agreed special right to serve notice of termination. In this case, the Vice Presidents were granted a special right to serve notice of termination.

7 LEGAL DISCLOSURES

7.1 Declaration on Corporate Governance pursuant to Article 289a German Commercial Code (HGB)

The Declaration on Corporate Governance pursuant to Articles 289 a, 315 Section 5 German Commercial Code (HGB) (in the version applicable up to 18 April 2017) is publicly accessible under: https://www.kps.com/en.investor-relations.corporate-governance.html/investor-corporategovernance.

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

The Executive Board and the Supervisory Board of KPS AG submitted the declaration required in accordance with Article 161 of the Stock Corporation Law and published the declaration on the website of the company at www.kps.com/de.investor-relations.corporate-governance.html/investor-corporategovernance on 18 January 2018.

KPS GROUP

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS 2016/2017

KPS AG Consolidated Financial Statements in accordance with IFRS

Income Statement

for the period from 1 October 2016 to 30 September 2017

in KEuros

		Note	2016/2017	2015/2016
1	Revenues	7.1	160,297	144,933
2	Own work capitalized	7.2	5,141	1,468
3	Other operating income	7.3	2,820	850
4	Cost of materials	7.4	-67,574	-59,889
5	Personnel expenses	7.5	-53,270	-47,505
6	Other operating expenses	7.6	-21,002	-16,601
7	**Operating result before depreciation and amortization (EBITDA)**		**26,412**	**23,256**
8	Depreciation and amortization (M&A adjusted)*	7.7	-814	-997
9	**Operating result (EBIT) adjusted ***		**25,598**	**22,259**
10	Depreciation and amortization (M&A related)	7.7	-843	0
11	**Operating result (EBIT)**		**24,755**	**22,259**
12	Financial income	7.8	1,215	5
13	Financial expenses	7.8	-134	-95
14	**Financial result**		**1,081**	**-90**
15	**Income before income taxes****		**25,836**	**22,169**
16	Income tax	7.9	-6,037	-2,893
17	**Earnings after income taxes**		**19,799**	**19,276**
	Number of shares in thousands – basic/diluted weighted average		37,279	34,932

in euros

		Note	2016/2017	2015/2016
	Earnings per share			
	– basic	7.10	0.53	0.55
	– diluted	7.10	0.53	0.55

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

** corresponds to earnings from ordinary activities

KPS AG Consolidated Financial Statements in accordance with IFRS

Comprehensive Income

for the period from 1 October 2016 to 30 September 2017

STATEMENT OF COMPREHENSIVE INCOME

in KEuros	Note	2016/2017	2015/2016
Earnings after income taxes	7.11	19,799	19,276
Expenses and income recognized in equity with no effect on the income statement	7.11	297	-474
Financial result		20,096	18,802

Indicators for the Income Statement

(in million euros)	2016/2017	2015/2016
Revenues	160.3	144.9
EBITDA	26.4	23.3
EBITDA margin	16.5 %	16.1 %
EBIT	24.8	22.3
EBIT margin	15.4 %	15.4 %

KPS AG Consolidated Financial Statements in accordance with IFRS

Group Balance Sheet as at 30 September 2017

ASSETS

in KEuros	Note	30.09.2017	30.09.2016
ASSETS			
A. NON-CURRENT ASSETS			
I. Property, plant and equipment	8.1	994	1,134
II. Goodwill	8.2	32,227	30,472
III. Other intangible assets	8.2	10,063	2,032
IV. Deferred tax assets	8.3	8,626	12,569
		51,910	46,207
B. CURRENT ASSETS			
I. Future recoverables from production orders	8.4	5,442	174
II. Trade receivables	8.5	37,450	34,485
III. Other receivables and financial assets	8.6	1,344	1,630
IV. Entitlements to income tax rebates	8.7	72	0
V. Cash and cash equivalents	8.8	6,665	12,606
		50,973	48,895
Total assets		102,883	95,102

LIABILITIES AND SHAREHOLDERS' EQUITY

in KEuros	Note	30.09.2017	30.09.2016
A. SHAREHOLDERS' EQUITY			
Share in equity attributable to shareholders of KPS AG			
I. Subscribed capital	8.9.1	37,291	37,291
II. Capital reserve	8.9.3	-11,595	-11,595
III. Retained earnings	8.9.4	663	663
IV. Other comprehensive income	8.9.5	-647	-944
V. Net profit	8.9.6	40,476	32,979
Total equity	8.8	66,188	58,394
LIABILITIES			
B. NON-CURRENT LIABILITIES			
I. Non-current provisions	8.10	2,420	1,754
II. Other non-current liabilities	8.10.1	538	0
III. Deferred tax liabilities	8.11	1,686	361
		4,644	2,115
C. CURRENT LIABILITIES			
I. Trade liabilities	8.12	11,475	10,711
II. Financial liabilities	8.13	0	0
III. Advance payments received	8.14	1,540	145
IV. Tax provisions	8.15	1,872	4,033
V. Other provisions	8.16	9,555	10,533
VI. Other liabilities	8.17	6,821	8,285
VII. Income tax liabilities	8.18	788	886
		32,051	34,593
Total liabilities		36,695	36,708
Total shareholders' equity and liabilities		102,833	95,102
Equity ratio		64,3%	61.4%

KPS AG Consolidated Financial Statements in accordance with IFRS

Consolidated Cash Flow Statement in accordance with IFRS

for the period from 1 October 2016 to 30 September 2017

	in KEuros	2016/2017	2015/2016
A.	**Current business operations**		
	1. Earnings before interest and income taxes (EBIT)	24,755	22,259
	2. Depreciation of fixed assets	1,657	997
	3. Change in current assets	-6,420	-2,694
	4. Change in provisions	-364	884
	5. Other non-cash expenses and income	763	384
	6. Change in other liabilities	783	-332
	7. Losses from asset disposals	0	26
	8. Taxes paid	-2,870	-1,235
	9. Interest received	8	3
	Cash inflow from current business operations	16,787	20,292
B.	**Investment activities**		
	1. Investments in property, plant and equipment	-161	-625
	2. Investments in intangible assets	-5,802	-1,588
	3. Investments in finance investments	-6,432	-1,750
	4. Cash receipts from sale of assets	2	0
	Cash outflow from investment activities	-12,393	-3,963
C.	**Financial activities**		
	1. Interest paid	-39	-42
	2. Dividend payouts	-12,302	-10,167
	Cash outflow from financial activities	-12,341	-10,209
D.	**Net change in cash funds**	**-7,947**	**6,120**
E.	**Cash funds at the beginning of the period**	**12,606**	**6,486**
F.	**Consolidation-related change in cash funds**	**2,006**	**0**
G.	**Cash funds at the end of the period**	**6,665**	**12,606**

COMPOSITION OF CASH FUNDS

in KEuros	Balance 30.09.2017	Balance 30.09.2016
Cash in hand and bank balances	6,665	12,606
Bank liabilities with a term of up to three months	0	0
Cash funds	6,665	12,606

KPS AG Consolidated Financial Statements as at 30 September 2017

Statement of Changes in Shareholders' Equity at KPS – IFRS

in KEuros	Subscribed capital	Treasury shares	Total subscribed capital
30.09.2015	34,011	-121	33,890
Acquisition of treasury shares	0	0	0
Disposal of treasury shares	0	0	0
Equity transactions with shareholders			
Dividend payout	0	0	0
Other changes	0	0	0
Changes recognized without affecting income	3,401	0	3,401
Group earnings	0	0	0
Allocation to retained earnings	0	0	0
30.09.2016	37,412	-121	37,291
Acquisition of treasury shares	0	0	0
Disposal of treasury shares	0	0	0
Equity transactions with shareholders			
Dividend payout	0	0	0
Other changes	0	0	0
Changes recognized without affecting income	0	0	0
Group earnings	0	0	0
Allocation to retained earnings	0	0	0
30.09.2017	37,412	-121	37,291

Capital reserve	Retained earnings OCI	Accumulated other comprehensive income	Net profit	Equity
-11,595	4,064	-469	23,871	49,761
0	0	0	0	0
0	0	0	0	0
0	0	0	-10,168	-10,168
0	0	0	0	0
0	-3,401	-475	0	-475
0	0	0	19,276	19,276
0	0	0	0	0
-11,595	663	-944	32,979	58,394
0	0	0	0	0
0	0	0	0	0
0	0	0	-12,302	-12,302
0	0	0	0	0
0	0	297	0	297
0	0	0	19,799	19,799
0	0	0	0	0
-11,595	663	-647	40,476	66,188

KPS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016/2017

1 GENERAL INFORMATION

The consolidated financial statements of KPS AG for the period to 30 September 2017 were prepared in accordance with the regulations of the International Financial Reporting Standards (IFRS) valid on the balance sheet date and endorsed by the European Union as issued by the international Accounting Standards Board (IASB), London, the interpretations of the IFRS Interpretations Committee (IFRIC) and observing the additional applicable commercial regulations established in sections Article 315e German Commercial Code (HGB) and the company statutes of KPS AG.

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

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

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

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

The Executive Board of KPS AG prepared the consolidated financial statements on 29 January 2018 and submitted them to the Supervisory Board, which passed a resolution on them on 30 January 2018.

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

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

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

The consolidated financial statements are prepared in euros. Unless otherwise noted, all amounts are given in thousand euros (KEuros). Roundings may lead to values in this report not adding up exactly to the specified sum and percentages given may not conform precisely to the values presented. Alongside the values for the business year 2016/2017, the equivalent year-earlier figures are given for purposes of comparison. These are presented in brackets.

The presentation is unchanged by comparison with the previous year.

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

2 REPORTING VALUATION AND CONSOLIDATION METHODS NOT IN ACCORDANCE WITH GERMAN LAW

The following consolidated financial statements prepared in accordance with IFRS are based on the following reporting, valuation and consolidation methods which deviate from German law:

The consolidation is carried out within the framework of a "reverse acquisition" in accordance with IFRS 3. The economic parent company is KPS Business Transformation GmbH, which was acquired by KPS AG in a capital-in-kind takeover during the business year 2007/2008.
The pro-rata profit realization is carried out in accordance with the project progress of customer orders based on the Percentage of Completion Method (IAS 11).
Other provisions are not formed insofar as the probability of utilization is less than 50 %.
Goodwill from capital consolidation is capitalized under assets. Impairment tests are carried out annually in accordance with IFRS 3 and IAS 36).

Attention is drawn to the fact that the deviations given do not encompass all the deviations from reporting, valuation and consolidation methods of rules in accordance with IFRS from rules pursuant to German law.

3 EFFECTS OF NEW ACCOUNTING STANDARDS

The following standards are relevant for KPS AG and were applied for the first time in the business year 2016/2017 or were revisions of standards:

IAS 1 – Amendments to IAS, initiative for improvement of disclosure requirements. There is an obligation to apply these amendments for the business years starting on or after 1 January 2016. KPS has reviewed the consolidated financial statements and the management report and implemented the amendments as necessary.

The following accounting standards are relevant for KPS AG and have been issued by the IASB but are not yet applicable:

3.1 IFRS 9 – Financial Instruments:

IFRS 9 Financial Instruments includes regulations for the recognizing, measurement and derecognition, and for reporting of hedging relationships. The IASB published the final version of the standard following the completion of various phases of its comprehensive project on financial instruments on 24 July 2014. This means that reporting of financial instruments previously carried out under IAS 39 Financial Instruments: Recognition and Measurement can now be replaced entirely by reporting under IFRS 9. The version of IFRS 9 recently published replaces all previous versions. The central requirements of the final IFRS 9 can be summarized as follows:

- Compared with the previous standard IAS 39 Financial Instruments: Recognition and Measurement, the requirements of IFRS 9 are largely unchanged for the area of application and recognition and derecognition.
- However, the regulations of IFRS 9 provide for a new classification model for financial assets by comparison with IAS 39.
- In future, the renewed valuation of financial assets will be contingent on three categories with different measures of value and a different way of recording value changes. The categorization is based on the contractual payment flows of the instrument and from the business model in which the instrument is held. Depending on the emphasis of these conditions, a valuation at amortized costs is obtained using the effective interest method (AC category), at the fair value whereby changes in other earnings are included (FVTOCI category), or at the market value whereby changes are recorded affecting net income (FVTPL category). These are therefore mandatory categories. However, the company also has rights to make choices in individual cases.
- Conversely, for financial liabilities, the existing regulations were largely incorporated in IFRS 9. The only significant innovation relates to financial liabilities in the fair value option. Fair value fluctuations for them will be reported in other earnings on account of changes to the intrinsic default risk.
- The new impairment model in IFRS 9 provides for three stages which will in future determine the level of the losses to be recorded and the interest realization. According to this model, the expected loses are already to be recorded at the cash value of an expected 12-month loss on addition (stage 1). If there is a significant increase in the default risk, the risk provision should be increased up to the level of the expected losses for the entire residual term (stage 2). When objective information is received of an impairment, the interest realization should

be carried out on the basis of the net book value (book value less risk provision) (stage 3).

- Alongside comprehensive transitional arrangements, IFRS 9 is also associated with comprehensive disclosure requirements during transition and during continuous application. Innovations by comparison with IFRS 7 Financial Instruments: Disclosures mainly relate to the regulations on impairments.
- On the basis of an analysis of the financial assets and financial liabilities of the Group on 30 September 2017 and of the facts and circumstances existing at this point, the management has carried out a preliminary assessment of the impacts of IFRS 9 on the consolidated financial statements. This has resulted in the outcome that all financial assets and liabilities of KPS AG will in future be reported as they are currently reported under IAS 39.

Impairment

- Financial assets valued at amortized costs, receivables from financial leasing relationships and amounts due from customers relating to production orders come under the new impairment regulations of IFRS 9.
- KPS will probably apply the four-fold impairment model for trade receivables, finance leasing relationships and amounts due from customers relating to production orders, according to which a risk provision amounting to the expected losses for the residual term should be recorded for all instruments independently of their credit quality.
- Overall, the management expects that the application of the new impairment model will lead to earlier recording of expected losses for corresponding instruments and therefore to higher impairment amounts.

It should be noted that the above assessments are based on an analysis of the financial assets and financial liabilities of the KPS Group as at 30 September 2017 and on the facts and circumstances existing at that time. The first-time application of IFRS 9 for KPS AG is on 30 September 2019 because the Group does not intend to apply the standard on an earlier date. Since facts and circumstances can change up to this point, the assessment of the potential impacts can change.

3.2 IFRS 15 – Revenues from contracts with customers

IFRS 15 specifies whether and in what amount and when an IFRS reporter will recognize revenues. The preparer of the financial statements is also required to provide recipients of financial statements with more informative and more relevant information than was the case previously. IFRS 15 should be applied for all contracts with customers. The following contracts are an exception:

- Leasing relationships that come under IAS 17 Leasing Relationships;
- Financial instruments and other contractual rights and obligations which are included under IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements or IAS 28 Shares in Associated Companies and Joint Ventures;
- Insurance contracts in the area of application of IFRS 4 Insurance Contracts; and
- Non-financial swap transactions between companies in the same sector which are intended to facilitate disposals to customers or potential customers.

By contrast with the currently valid regulations, the new standard provides for a unique, principles-based five-stage model which should be applied to all contracts with customers. On the basis of this five-step model, the contract should be initially determined with the customer (step 1). In step 2, the independent contractual obligations should be identified in the contract. The transaction price should then be determined (step 3) whereby explicit regulations are envisaged for dealing with variable considerations, financial components, payments to customers, and swap transactions. After the transaction price has been determined, step 4 involves carrying out the allocation of the transaction price to the individual contractual obligations. The basis for this is provided by the individual disposal prices of the individual contractual obligations. Finally (step 5), the revenue can be recorded insofar as the contractual obligation has been fulfilled by the company. The prerequisite for this is the transfer of the power of disposal over the good or service to the customer.

When a contract is concluded, it is necessary to establish in accordance with IFRS 15 whether the resulting revenues should be recorded at a specified point in time or over a period of time. In the first instance, it is important to clarify on the basis of specified criteria whether the power of disposal over the contractual obligation is transferred over a period of time. If this is not the case, the revenue should be recorded at the time when the power of disposal is transferred to the customer. Indicators for this include, for example, the legal transfer of ownership, the transfer of material opportunities and risks, or a formal acceptance. Conversely, if the power of disposal is transferred over a period of time, the realization of the revenue over the period of time may only be carried out over a period of time insofar as the progress of the contractual performance can be reliably measured with the assistance of input or output oriented methods.

Alongside the general principles for recording revenue, the standard includes detailed implementation guidelines on topics such as customer options on additional goods or services, and relationships with principles and agents. New guidelines on costs for fulfilment and acquiring a contract, and guidelines relating to the issue as to which costs should be capitalized as assets are included. Costs which do not meet the specified criteria should be recorded as expenses if they occur.

Finally, the standard includes new and comprehensive regulations on disclosures which should be made on revenues in the financial statements of an IRFS reporter. In particular, qualitative and quantitative disclosures should be made on each of the following items:

- The reporter's contracts with customers,
- discretionary decisions and changes to them which were made in the application of revenue regulations to these contracts,
- any assets which result from costs capitalized as assets for the acquisition and the fulfilment of a contract of a customer.

In April 2016, the IASB published clarifications for IFRS 15 which relate to the following topics:

- Identification of contractual obligations (in relation to unique identifiability in the context of the contract),
- Principal and agent relationships (in relation to the assessment of the control of goods or services before transfer to the customer),
- Licenses (in relation to the determination of the type of license granted and on license fees dependent on sales and usage, and
- Transition arrangements (relating to practical simplifications in first-time application of the standard)

The Group generates revenues in the following areas:

- Sale of products
- Provision of services
- Licensing of internally generated software products and software products from third-party providers.

The management is currently developing the reporting guidelines applicable in the future for realizing sales in accordance with IFRS 15 and is in the course of this process harmonizing the relevant business processes with the new reporting guidelines. In relation to this, we have launched a project covering all the operating segments. The project covers the development of the new reporting guidelines for realizing sales. During the course of this measure, we have identified a number of differences between the current reporting and valuation methods and the methods based on IFRS 15 in the future. Our analyses carried out so far have highlighted the following differences:

- IFRS 15 results in changes to the method on how we allocate a transaction price to individual contractual obligations. This can exert an impact on the classification of the revenues and on their distribution over time. These differences also include changes in the application of residual valuation in accordance with IFRS 15 and the residual method. While the residual method is directed toward allocating the contract fee between the contractual delivery and performance obligations, the residual valuation is intended to assess the individual disposal price of contractual obligations and this does not allow a contractual obligation to be allocated or only a small proportion of the transaction price. These differences can lead to a higher proportion of the transaction price being assigned to divergent contractual obligations and parts of the transaction price can therefore be recorded in sales at an earlier point.
- On the basis of our current sales realization methods, we do not take into account any options which enable the customer to acquire additional services as a separate contractual component. Whereas in accordance with IFRS 15 reporting of such options is envisaged as a separate contractual obligation, insofar as they constitute an essential right. In such cases, we will classify a share of the transaction price to such options according to IFRS 15 if they constitute an essential right. This share will be recorded when the options are exercised or lapse. The time for this may be after the time at which the sale is realized.

Alongside impacts on our consolidated income statements, changes are also anticipated in our consolidated balance sheet (in particular arising from the elimination of deferred items for unrealized sales, the recognition of contractual items under assets and liabilities, the differentiation between contractual items under assets and trade receivables, and from impacts on retained earnings resulting from first-time application of IFRS 15) and with additional quantitative and qualitative disclosures in the notes to the consolidated financial statements. At the moment, there are no known quantitative impacts of IFRS 15 on the KPS consolidated financial statements 2018/2019, neither can these impacts be reliably assessed because

- the analysis of the order volume in place when IFRS 15 is implemented, which is affected by the different amendments to accounting and valuation methods arising from the application of IFRS 15, has not yet been completed,
- not all those orders have been identified which will not have been completed by September 2019 and which will therefore have to be revalued in accordance with the "Cumulative Catch-up" method that should be applied in the transition to IFRS 15,
- The accounting and valuation method for the cost components, which have to be included in the contract fulfilment costs in accordance with IFRS 15, have not yet been finalized.

Furthermore, the impacts are being investigated which the application of IFRS 15 will exert in the period of first-time application on the consolidated financial statements. This essentially depends on the business activity and the market strategy.

3.3 IFRS 16 – Leasing

IFRS 16 includes a comprehensive model for identification of leasing agreements and for reporting with the lessor and lessee.

IFRS 16 should be applied to all leasing relationships. A leasing relationship under the standard is deemed to exist if the right to control an identified asset for a specified period of time is granted contractually to the lessee by the lessor and the lessor receives a consideration from the lessee in return.

As far as lessees are concerned, the previous differentiation between operational leasing and finance leasing is eliminated. Instead, the lessee must in future report the right-of-use in a leasing item (RoU asset) for all leasing relationships and a corresponding leasing liability. There are only exceptions to this for short-term asset relationships and leasing agreements relating to low-value assets. At the point of addition, the amount of the RoU asset corresponds to the amount of the leasing liability plus any initial direct costs incurred by the lessee. During the subsequent periods, the RoU asset (apart from two exceptions) will be valued at amortized costs. The leasing liability is measured as the cash value of the leasing payments which are paid during the term of the leasing relationship. Accordingly, the book value of the leasing liability accrues interest by applying the interest rate used for accrued interest and is reduced by the leasing payments made. Any changes to the leasing payments lead to a revaluation of the leasing liability.

In addition, the disclosure obligations for lessees in IFRS 16 have become much more extensive compared with IAS 17. The objective of the disclosure obligations is to communicate information to the recipients of the financial statements, who are thereby intended to gain a better understanding as to the impacts leasing relationships exert on the asset situation, financial position and results of operations.

On 30 September 2017, the Group has payment obligations arising from non-terminable leasing relationships amounting to 5.85 million. IAS 17 requires neither recording of an RoU asset value nor a leasing liability for future payments.

An initial assessment indicates that these agreements meet the definition of a leasing agreement in accordance with IFRS 16 and the Group would therefore have to report corresponding RoU assets and leasing liabilities when IFRS 16 is applied, insofar as the exceptions for short-term leasing relationships or minor-value assets are not applicable in individual cases.

It should be assumed that this has exerted a significant impact on the consolidated financial statements.

The management is currently checking the potential impact on the consolidated financial statements. A reliable assessment on the amount of the financial impact can only be given after the conclusion of this review.

4 PRINCIPLES AND METHODS, AND UNCERTAINTIES ON ACCOUNT OF ESTIMATES

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

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

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

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

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

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

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

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

4.1 Consolidation

The consolidated financial statements are based on the annual financial statements of the consolidated companies prepared on 30 September 2017 in accordance with the accounting and valuation principles applied uniformly across the Group. The annual financial statements have been audited and approved or they were subject to an audit review in the course of the audit of the consolidated financial statements.

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

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

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

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

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

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

4.2 Currency translation

The financial statements of the consolidated companies included in the consolidated financial statements are prepared using their functional currency. The functional currency is the currency in which the entity generates or uses most of its liquid funds. In the case of foreign companies included in the group of consolidated companies, the functional currency is the currency of the Group parent company because the companies are foreign units that are not autonomous which are integrated within the business operations of the Group.

The currency translation differences arising are recognized cash-effectively in the income statement.

Foreign currency transactions are converted into the functional currency at the exchange rates on the transaction date. Profits and losses which arise out of fulfilment of such transactions and from the conversion at the rate on the reference date of monetary assets and liabilities denominated in foreign currency are recognized as profit or loss in the income statement.

Shares in equity capital are converted at historic exchange rates on the dates of their additions in each case from the perspective of the Group.

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

		Average rate on the balance sheet date		Annual average rate	
		30.09.2017	**30.09.2016**	**2016/2017**	**2015/2016**
Denmark	DKK	7.4423	7.4513	7.4375	7.4505
Switzerland	CHF	1.1457	1.0880	1.0909	1.0914
USA	US$	1.1806	1.1165	1.1046	1.1109

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

4.3 Revenues or other operating income

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

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

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

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

Provisions for bonuses amounted to 1,287 (previous year 822) KEuros in the business year 2016/2017.

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

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

4.4 Research and development expenses

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

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

During the course of the business year, development costs which meet the criteria defined in IAS 38.57 were capitalized in the amount of 4,773 (previous year: 1,468) KEuros. Development costs are recognized with the manufacturing costs. The developments capitalized in the business year had only been partly produced on the balance sheet date, the amortization booked for the business year amounted to 130 (previous year: 0) KEuros.
Scheduled amortization on development costs is carried out over the expected useful life in accordance with the straightline method.

At the end of the business year, a review of the useful life and the amortization method is carried out. In the business year, the useful life of the capitalized development costs is assumed to be ten years.

4.5 Goodwill

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

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

4.6 Other intangible assets

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

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

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

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

4.7 Property, plant and equipment

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

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

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

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

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

	Years
IT hardware	3 – 5
Business equipment	3 – 10

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

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

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

4.8 Leasing

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

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

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

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

4.9 Cash and cash equivalents

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

4.10 Financial instruments

Financial instruments comprise primary (for example trade receivables and payables) and derivative financial instruments (for example transactions for hedging against risks associated with interest rate changes).

In accordance with IAS 39, the following categories of financial instrument are present at the KPS Group:

a) Financial assets and liabilities measured at fair value through profit or loss

b) Credit balances and receivables

c) Financial liabilities measured at amortized costs.

Classification depends on the relevant purpose for which financial assets were acquired or for which the financial liabilities were taken out.

First-time recognition and valuation of the financial instruments is carried out at fair value on the settlement date, as necessary taking transaction costs into account. The subsequent valuation is based on amortized acquisition costs or at fair value. Financial instruments are no longer recognized if the rights and payments from the investment have ceased or been transferred, and the Group has essentially transferred all the risks and opportunities associated with the ownership.

4.11 Future receivables from production orders

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

4.12 Trade receivables

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

4.13 Income taxes

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

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

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

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

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

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

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

4.14 Treasury shares

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

4.15 Tax provision

The tax provision includes obligations on account of current income taxes which are likely to lead to cash outflows on account of national tax regulations.

4.16 Other provisions

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

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

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

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

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

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

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

4.17 Financial liabilities

Financial liabilities are made up of primary financial liabilities. Primary financial liabilities are recognized in the consolidated balance sheet if the KPS Group has a contractual obligation to transfer liquid funds or other financial assets to another party. The first-time recognition of a primary liability is recorded at the fair value of the liquid funds received or the value of payments received less any transaction costs. The subsequent valuation of primary financial liabilities is measured at amortized cost of acquisition using the effective interest method.

Financial liabilities are derecognized when the contractual obligation is discharged, cancelled, or has expired.

4.18 Other receivables and liabilities

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

4.19 Company acquisitions

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

4.20 Procedure used in Impairment tests and its impact

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

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

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

When the recoverable amount is determined, it is calculated from the present value of cash flows for the fair value less the disposal costs and for the value in use. The forecast for the future net cash inflows relating to the determination of the recoverable amount is derived from the current plans of the KPS Group, which are generally based on a planning horizon of up to three years. This primarily involves making assumptions about future selling prices, sales volumes, and costs. Where the recoverable amount is recognized as the fair value less the costs of disposal, the cash-generating unit is valued from the viewpoint of an independent arm's length market participant. Where the recoverable amount is the value in use, the cash-generating unit or the individual asset is valued as currently used. Net cash 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 cost-of-capital rates used for impairment tests and for discounting of projected cash flows were 6.35 % (previous year: 6.86 %). When perpetual annuities are calculated, an additional growth factor of 1 % is used. Any change to the cost-of-capital rate by +/- 3 percentage points has no impact on the valuation of goodwill.

5 EXPLANATIONS FOR SEGMENT REPORTING

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

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

5.1 Management consulting / Transformation consulting

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

5.2 System Integration

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

5.3 Products / Licenses

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

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

Segment reporting for the business year 2016/2017

in KEuros

Presentation by business areas	Management consulting/ Transformation consulting		System Integration		Products / License		Other		Overall	
Earnings position	30.09.2017	Previous year	30.09.2017	Previous year	30.09.2017	Previous year	30.09.2017	Previous year	30.09.2017	Previous year
Sales	139,241	127,966	1,988	3,571	19,069	13,395	0	0	160,297	144,933
Production costs	-99,730	-90,096	-1,370	-2,226	-12,380	-7,868	0	0	-113,480	-100,190
Business development	-3,303	-3,315	-292	-221	-404	-310	0	0	-3,999	-3,846
Operating costs	-3,510	-5,119	-433	-156	-1,298	-1,536	-11,166	-10,831	-16,406	-17,642
EBITDA	32,698	29,436	-107	968	4,987	3,681	-11,166	-10,831	26,412	23,256
Depreciation and amortization	-1,402	-781	0	0	-79	-80	-176	-135	-1,657	-997
EBIT	31,296	28,655	-107	968	4,908	3,601	-11,342	-10,965	24,755	22,259
Interest	898	-79	0	1	0	-1	183	-10	1.081	-90
Taxes	-1.992	-3,426	7	-121	-312	-372	722	1,348	-1,575	-2,571

The revenues shown only include sales with external customers. Sales and prepayments between the segments are netted on the basis of market prices.
Since the business year 2016/2017, only income tax expenses have been recognized under taxes. 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 EBIT essentially form the basis for company decisions at KPS AG. Other information (assets, liabilities) is mostly not relevant for assessments.

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

5.4 Information on geographical areas

The breakdown of revenues amounting to 160.3 (previous year: 144.9) million euros by regions provides the following picture for the business year 2016/2017: the main sales contributor was Germany with 130.5 (previous year: 121.1) million euros or 81.4 %. Sales of 29.8 (previous year: 23.8) million euros were generated abroad. The geographical allocation is made on the basis of the registered office of the client. The breakdown can be divided into the following regions: Scandinavia with a volume of 15.8 (previous year: 9.3) million euros or 9.9 %, Benelux with 6.7 (previous year: 1.7) million euros or 4.2 %, and Switzerland with 4.0 (previous year: 12.6) million euros or 2.5 %. The remaining sales revenues amounted to 3.3 million euros (2.0 %) and were mainly generated in the USA. These belong to the segment of managing consulting/ transformation consulting.

5.5 Dependence on important customers

One (previous year: one) major customer in accordance with IFRS 8.34 is included in the segment "Management Consulting/ Transformation Consulting", the revenues generated amount to 59.9 (previous year: 56.3) million euros

6 SCOPE OF CONSOLIDATION AND SUBSIDIARIES AND AFFILIATES

6.1 Development of the scope of consolidation

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

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

Shareholding	Registered office	Share in %	Currency	Subscribed capital 30.09.2017 (previous year)	Equity capital 30.09.2017 (previous year)	Result for the year 2016/2017 (previous year)
KPS Business Transformation GmbH [1.)]	Unterföhring	100	KEuros	500 (500)	500 (500)	8,008 (11,856)
KPS Services GmbH	Unterföhring	100	KEuros	6,300 (6,300)	10,266 (7,932)	5,334 (2,000)
KPS Consulting Verwaltungs GmbH	Unterföhring	100	KEuros	26 (26)	37 (38)	-1 (1)
KPS Consulting GmbH & Co. KG	Unterföhring	100	KEuros	5,113 (5,113)	5,113 (5,113)	5,660 (1,204)
KPS Consulting AG	Zurich/ Switzerland	100	KCCF	100 (100)	1,718 (1,322)	396 (1,107)
KPS Solutions GmbH	Unterföhring	100	KEuros	80 (80)	966 (-1,702)	2,668 (79)
KPS digital GmbH [1.)]	Dortmund	100	KEuros	25 (25)	2,554 (2,554)	3,962 (3,507)
KPS Consulting A/S	Virum/ Denmark	100	KDKK	500 (500)	16,883 (7,386)	9,497 (7,038)
KPS B.V.	Amsterdam/ Netherlands	100	KEuros	100 (100)	406 (362)	44 (262)
KPS Consulting Inc.	Wilmington/ USA	100	KUSD	100 (-)	549 (-)	449 (-)
Saphira Consulting A/S [2.)]	Virum/ Denmark	100	KDKK	1,000 (-)	13,861 (-)	3,557 (-)
KPS Strategie-, Prozess- und IT-Consulting GmbH [3.)]	Wien/ Austria	100	KEuros	100 (-)	100 (-)	0 (-)

[1.)] The profit for the year 2016/2017 was transferred to KPS AG on account of the profit transfer agreement concluded.

[2.)] On 5 January 2017, KPS Consulting A/S, Denmark, concluded the acquisition of 100% of the shares in Saphira Consulting A/S, Denmark. Saphira A/S is a leading SAP implementation partner in the Scandinavian region. The takeover consolidates the position of KPS as a leading provider in the area of Digital Transformation in Northern Europe.

During the year under review, Saphira Consulting A/S contributed 6,710 KEuros to the sales of the KPS Group, while Saphira Consulting A/S is included in the operating result (EBIT) of the year under review in the amount of 477 KEuros. The negative impacts on the operating result (EBIT) arising from amortization of intangible assets amounted to 843 KEuros. The earnings of the acquired business generated since the date of first-time consolidation after taxes amount to 462 KEuros.

If Saphira Consulting A/S had been acquired on 1 October 2016, the KPS Group would have recognized revenues amounting to 162,270 KEuros in the year under review and earnings after income taxes would have amounted to 19,161 KEuros. This includes earnings effects arising from the revaluation of acquired assets and financial costs for the entire year. Acquisition of Saphira Consulting A/S at the beginning of the business year 2016/2017 would not have resulted in any change to the earnings per share from continuing and discontinued operations.

The fair value of the consideration (purchase price) is made up of the cash payments made amounting to 4,876 KEuros and a contingent purchase price amounting to 1,643 KEuros. The contingent purchase price will be paid in the business years 2016/2017 – 2018/2019, if the performance of Saphira Consulting A/S continues to develop in line with expectations. The contingent purchase price reported for the business year 2016/2017 amounting to KEuros 630 was released through the income statement on 30 September 2017 because the contractually agreed targets were not achieved.

The purchase price for 100% of the shares in Saphira Consulting A/S can be allocated as follows at the date of acquisition and is likely to lead to the following net outflow taking into account the acquired cash and cash equivalents:

Saphira Consulting A/S in KEuros	Book value before acquisition	Adjustment to fair value	Fair value
Acquired assets and liabilities			
Goodwill	0	1,755	1,755
Other intangible assets	0	3,609	3,609
Property, plant and equipment	1	0	1
Other non-current assets	16	0	16
Inventories	106	0	106
Other non-current assets	1,406	0	1,406
Cash and cash equivalents	2,006	0	2,006
Other provisions	679	0	679
Other liabilities	907	0	907
Deferred taxes	0	794	794
Net assets	**1,950**	**4,570**	**6,520**

Fair value of considerations	6,520
conditional considerations included therein	1,643
Acquired cash and cash equivalents	2,006
Expected net outflow from the acquisition	**4,514**

Net outflow of liquid funds in the business year 2016/2017	
Consideration paid in the form of liquid funds	4,877
Less acquired liquid funds	-2,006
Net outflow in the business year 2016/2017	**2,871**

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

The purchase price allocation takes account of all information with respect to revaluation amounts calculated at the date of acquisition.

The contingent consideration from the company acquisition amounting to 1,643 KEuros in accordance with IFRS 13.87 is to be classified in the measurement hierarchy stage 3. The discounted cash-flow method is used for calculation, the discount rate amounts to 6.8%. An increase in the discount rate by 3 percentage points regarded in isolation would lead to a reduction in the fair value to 1,548 KEuros, a reduction in the discount rate by 3 percentage points would lead to an increase in the fair value to 1,745 KEuros.

An increase in the probability of a maximum earn-out payout of 5 percentage points would lead to an increase in the fair value to 1,761 KEuros.

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

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

in KEuros	**Fair values**
Customer orders	490
Customer relationships	3,119
Total	3,609

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

Acquired receivables amounting to 1,376 KEuros are included in other current and non-current assets. The gross amounts for contractual receivables amount to 1,376 KEuros, of which 0 KEuros are likely to be non-recoverable.

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

The management assumes that the book value of the reported goodwill corresponds to the recoverable amount.
The goodwill impairment test was carried out on the balance sheet date and did not lead to any need for writedown.

[3.)] KPS Strategie-, Prozess- und IT-Consulting GmbH/Austria was established on 12 September 2017. The entry in the company register was carried out on 28 October 2017. The capital stock amounting to EUR 100,000 was paid in on 29 September 2017.

6.2. Acquisitions and establishments after the balance sheet date

On 2 October 2017, KPS AG acquired 100% of the shares in ICE Consultants Europe, S.L., Spain. ICE Consultant Europe, S.L. primarily specializes in providing process consulting, SAP implementation, and application management services (AMS).

Since a sufficiently reliable completion of ICE Consultants Europe, S.L. was not available until approval, only a provisional purchase price allocation could be carried out.

The fair value of the consideration (purchase price) is made up of the cash payments made amounting to 9,596 KEuros and a contingent purchase price amounting to 4,980 KEuros. The contingent purchase price will be paid in the business years 2017/2018 – 2020/2021, if the EBITDA of ICE Consultants Europe, S.L. continues to develop in line with expectations.

The purchase price for 100% of the shares in ICE Consultants Europe, S.L. can be allocated as follows at the date of acquisition and is likely to lead to the following net outflow taking into account the acquired cash and cash equivalents.

ICE Consultants Europe, S.L. in KEuros	Book value before acquisition	Adjustment to fair value	Fair value
Acquired assets and liabilities			
Goodwill	0	9,971	9,971
Other intangible assets	0	4,538	4,538
Property, plant and equipment	69	0	69
Other current assets	2,304	0	2,304
Cash and cash equivalents	646	0	646
Other provisions	39	0	39
Other liabilities	1,780	0	1,780
Deferred taxes	0	1,134	1,134
Net assets	**1,200**	**13,375**	**14,575**

Fair value of considerations	14,575
Conditional considerations included therein	4,980
Acquired cash and cash equivalents	646
Expected net outflow from the acquisition	**13,929**

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

The purchase price allocation takes account of all information with respect to revaluation amounts calculated at the date of acquisition, although this has not yet been completed. Changes in the allocation of the purchase price to individual assets may therefore still take place.

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

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

in KEuros	Fair values
Customer orders	1,285
Customer relationships	3,253
Total	4,538

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

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

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

Furthermore, KPS Strategie-, Prozess- und IT-Consulting GmbH, Vienna, was established with the entry in the company register on 28 October 2017. Shareholders' equity amounts to 100 KEuros and was fully paid in on 29 September 2017.

On 14 December 2017, KPS AG acquired 100% of the shares in Infront Consulting & Management GmbH, Hamburg. The purchase price was made up of a cash payment amounting to around 4.3 million euros and the transfer of 133,365 treasury shares in KPS AG to the seller. Furthermore, earn-out rates totaling a maximum of around 9.0 million euros are to be paid out over the next five years. Infront Consulting & Management GmbH is active in consulting and management in the areas of strategy, business development, and business performance, and specialized in the digital transformation of companies. Since adequately reliable financial statements were not available for Infront Consulting & Management GmbH in time for the approval, no provisional purchase price allocation could be carried out.

6.3 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.

7 EXPLANATIONS FOR THE INCOME STATEMENT

7.1 Revenues

The recognized revenues result from ordinary business activities. Please refer to our comments under section 5.3 in relation to allocation to individual segments. The revenues are allocated to the individual sales generators as follows:

	Year under review 2016/2017		Year under review 2015/2016	
	KEuros	%	KEuros	%
Provision of services	155,909	97 %	143,902	99 %
Sale of goods	0	0 %	71	0 %
User charges	4,388	3 %	960	1 %
Total revenues	160,297	100 %	144,933	100 %

7.2 Own work capitalized

In the business year, internally generated intangible assets amounting to 5,141 (previous year: 1,468) KEuros were capitalized. The capitalizations are shown in the following table:

	Year under review 2015/2016	Year under review 2014/2015
	KEuros	KEuros
Development of processing streams for SAP	4,773	1,437
Internally generated software	368	31
Total all work capitalized	5,141	1,468

7.3 Other operating income

Other operating income amounts to 2,820 (previous year: 850) KEuros and is presented in the following table:

in KEuros	2016/17	2015/16
Income from release of provisions	128	21
Income from release of earn-out obligations	1,932	0
Income from discounts	353	388
Income from exchange-rate differences	276	118
Charging of payments in kind to employees	104	70
Income from commissions	1	200
Other income	26	53
Total other operating income	2,820	850

7.4 Cost of materials

The cost of materials amounts to 67,574 (previous year: 59,889) KEuros and includes expenses for hardware and software purchased amounting to 3,196 (previous year: 1,233) KEuros and expenses for services purchased amounting to 64,378 (previous year: 58,656) KEuros.

7.5 Personnel expenses and employees

Personnel expenses in the year under review amount to 53,270 (previous year: 47,505) KEuros. Wages and salaries account for 47,615 (previous year: 42,911) KEuros and social security expenses account for 5,655 (previous year: 4,594) KEuros.

The expenses for defined benefit pension plans included in personnel expenses amount to 349 (previous year: 142) KEuros.

On average, 454 (previous year: 387) employees (not including Members of the Executive Board and managing directors) were employed over the year, of which 406 (previous year: 354) were consultants and 48 (previous year: 33) were administrative employees.

Employees of the KPS Group

	30.09.2017	30.09.2016	Change
Employees by region			
Germany	457	401	56
Denmark	16	2	14
Switzerland	12	14	-2
Netherlands	2	0	2
Employees by function			
Executive Board	1	2	-1
Managing Directors	5	2	3
Consultants	426	378	48
Administration	53	32	21
Apprentices	2	3	-1
Total	487	417	70

7.6 Other operating expenses

Other operating expenses amount to 21,002 (previous year: 16,601) KEuros and the breakdown is shown in the following table:

in KEuros	2016/17	2015/16
Travel and hospitality costs	6,264	5,002
Purchased services	2,464	1,950
Vehicle costs	2,535	2,134
Legal and consulting costs	1,499	889
Personnel recruitment and advanced training	958	1,053
Advertising and marketing expenses	1,356	1,711
Telephone and other communication costs	650	470
Premises costs	1,404	1,138
Hire costs for operating and business equipment	685	574
Capital market costs	214	207
Insurance policies	151	85
Currency translation differences	502	168
Valuation allowance for receivables	541	16
Other expenses	1,779	1,204
Total other operating costs	21,002	16,601

7.7 Depreciation and amortization

Depreciation and amortization for the business year amount to a total of 1,657 (previous year: 997) KEuros. The breakdown of the depreciation and amortization is presented in the table showing development of fixed assets.

Out of depreciation and amortization amounting to 1,657 KEuros, 843 KEuros is attributable to amortization on order backlog and customer relationships which were recognized in the context of the purchase price allocation for the acquisition of Saphira Consulting A/S. This amortization is recognized in a separate line in the income statement and an operating result (EBIT) before this write-down is reported in order to show the effect of the acquisition separately.

7.8 Other financial income and expenses

Other financial income amounts to 1,215 (previous year: 5) KEuros and results primarily from release of a provision for trade tax arrears payments and from discounting of non-current liabilities.

Other financial expenses amount to 134 (previous year: 74) KEuros and include interest and guarantee fees to banks amounting to 39 (previous year: 26) KEuros, and compounding of non-current provisions amounting to 95 (previous year: 8) KEuros.

7.9 Income taxes

Income taxes for the business years 2016/2017 and 2015/2016 are shown in the following table:

in KEuros	2016/2017	2015/2016
Current tax expense	-1,567	-2,576
Tax expense related to other periods	-8	6
Deferred tax expense	-4,461	-323
Income taxes	-6,037	-2,893

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 2017, tax loss carryforwards amount to 36,730 (previous year: 50,919) KEuros for trade tax and 28,330 (previous year: 43,518) KEuros for corporate income tax.

When calculating deferred taxes, a Group tax rate of 29.8 % (previous year: 30.0 %) was applied, made up of corporate income tax of 16.9 % and trade tax of 12.9 %.

The amount of unusable tax losses for which no deferred tax asset was recognized amounts to 330 (previous year: 763) KEuros for corporate income tax and 12,681 (previous year: 15,131) KEuros for trade tax

The following table shows the reconciliation of expected tax expense with the actual tax expense:

in KEuros	2016/2017	2015/2016
Net income for the year before tax	25,836	22,169
Income tax rate	29.75 %	29.96 %
Expected nominal tax expense	-7,686	-6,642
Tax consequences resulting from:		
Tax effects on account of loss carryforwards	4,488	3,691
Tax effects on account of goodwill write-downs	0	-14
Tax effects on account of non-deductible operating expenses and other tax modifications	1,609	368
Deferred taxes on loss carryforwards	-4,168	-440
Deferred taxes on account of HB II (commercial balance sheet II) adjustments / StB (tax balance sheet effects)	-293	117
Tax effects relating to other accounting periods	0	0
Other effects	13	27
Actual income tax expense	-6,037	-2,893
Effective tax rate	**23.4 %**	**13.0 %**

Deferred tax assets and liabilities

in KEuros	30.09.2017		30.09.2016	
	Assets	Liabilities	Assets	Liabilities
Loss carryforwards	7,820	0	11,988	0
Pension provision	260	0	294	0
Other provisions	165	469	126	286
Trade receivables	0	565	0	75
Fixed assets	381	652	160	0
Other items	0	0	0	0
Total	8,626	1,686	12,569	361

This item relates to IFRS differences in respect of the commercial balance sheet (II)/tax balance sheet. Deferred tax assets amounting to 5,039 (previous year: 8,015) KEuros have a term of more than one year. Out of the deferred tax liabilities, 1,113 (previous year: 267) KEuros are non-current and 573 (previous year: 94) KEuros are current.

7.10 Earnings per share

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

On the basis of the resolution approved by the Annual General Meeting held on 15 April 2016, the subscribed capital was increased by 3,401,100.00 euros to 37,412,100.00. In the course of this capital increase, seven own shares were redeemed, the portfolio of shares held on the date of the capital increase included 12,124 shares which increase the portfolio of treasury shares. On account of the effects arising from the capital increase and the buy-back of own shares, the average number of shares in free float amounted to 37,278,742 (previous year: 34,932,525) no-par shares. By comparison with the previous year, the earnings per share were calculated as follows:

	2016/2017	**2015/2016**
Group earnings attributable to shareholders of KPS AG in KEuros	19,799	19,276
Average number of shares	37,278,742	34,932,525
Basic/diluted earnings per share in euros	0.53	0.55

After the balance sheet date, all 133,365 treasury shares were transferred to the seller as part of the purchase price for Infront Consulting & Management GmbH.

7.11 Other earnings

Other earnings amounting to 297 (previous year: -474) KEuros comprise changes in the cash value of the obligation arising from a defined-benefit pension plan to a classifying fully insured BVG Plan of KPS Consulting AG, Zurich, Switzerland amounting to 273 (previous year: -453) KEuros, changes arising from the plan assets of the aforementioned pension plan amounting to -23 (previous year: -21) KEuros, and changes arising from foreign currency translations amounting to 47 (previous year: 0) KEuros.

8 EXPLANATIONS FOR THE BALANCE SHEET

8.1 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.

8.2 Goodwill and other Intangible assets

The item includes software and associated licenses, which were partly self-developed and also purchased against payment. On 30 September 2017, self-developed software with a book value amounting to 394 (previous year: 152) KEuros was capitalized as an asset. The self-developed software is amortized over the likely useful life. Amortization during the year under review amounts to 155 (previous year: 79) KEuros.

In addition, during the course of the business year development costs amounting to 4,773 (previous year: 1,468) KEuros were capitalized. The development costs are written down as soon as the assets can be used over the likely useful life of 10 years. A proportion of the assets were produced in the year under review. The amortization amounted to 54 (previous year: 0) KEuros in the year under review.

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

The recognized goodwill amounts to 32,227 (previous year: 30,472) KEuros and is allocated to the following cash-generating units:

in KEuros	2016/2017	2015/2016
KPS Services GmbH	1,158	1,158
KPS Consulting GmbH & Co. KG	7,791	7,791
KPS Solutions GmbH	345	345
Saphira Consulting A/S	1,755	0
KPS digital GmbH (formerly getit GmbH)	21,178	21,178
Total	32,227	30,472

During the business year, other intangible assets amounting to 3,609 (previous year: 0) KEuros were capitalized as assets on the date of acquisition in the context of the company merger. Specifically, these assets relate to the value of the order backlog and the value of customer relationships which were transferred as a result of the purchase of the shares in Saphira Consulting A/S. The value of the order backlog will be amortized over a period of five years, the value of the customer relationships over eight years.

8.3 Deferred tax assets

Deferred tax assets amount to 8,626 (previous year: 12,569) 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

8.4 Future receivables from production orders

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

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

in KEuros	30.09.17	30.09.16
Order costs incurred up to the balance sheet date plus recorded profits or less recorded losses	5,442	174
Partial settlements	0	0
Balance	5,442	174
of which asset balance (receivables from production orders)	5,442	174
of which liabilities balance (liabilities from production orders)	0	0

Payments received for customer-based production orders amounting to 1,532 (previous year: 145) KEuros will be recognized under the balance sheet item advance payments received.

Sales from customer-based production orders (order revenues in accordance with IAS 11) amount to 5,442 (previous year: 174) KEuros, the total of the incurred costs amounts to 3,164 (previous year: 84) KEuros, the recognized profits amount to 2,209 (previous year: 90) KEuros.

8.5 Trade receivables

Receivables and other assets are recognized after deduction of allowances for doubtful items. On 30 September 2017, trade receivables amount to 37,450 (previous year: 34,485) KEuros, on which specific valuation allowances amounting to 547 (previous year: 44) KEuros are formed.

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

in KEuros	2016/2017	2015/2016
Balance of allowances on 01.10.	44	44
+ Additions	503	0
- Utilization/release	0	0
Balance of allowances on 30.09.	547	44

Out of the additions amounting to 503 KEuros, an amount of 251 KEuros is attributable to statute-barred receivables. No incoming payment is expected for these and a further amount of 185 KEuros is attributable to a customer with whom a settlement is intended. The remaining additions amounting to 57 KEuros relate to overdue receivables for which only a partial incoming payment is expected. All allowances related to the Management Consulting/Transformation Consulting segment and were recognized as expense in the income statement.

8.6 Other receivables

Other receivables amount to 1,344 (previous year: 1,630) KEuros and are comprised as follows:

in KEuros	2016/2017	2015/2016
Advance payments	478	229
Receivables from employees	138	77
Payments on account	88	8
Deposit payments	132	93
Money transit	0	877
Creditor accounts in debit	277	134
Other receivables	231	212
Total other assets	1,344	1,630

Other receivables essentially relate to receivables from advance tax payments abroad amounting to 164 (previous year: 159) KEuros.

8.7 Entitlements to income tax rebates

On the balance sheet date, entitlements arising from income tax amounted to 72 (previous year: 0) KEuros.

8.8 Cash and cash equivalents

Bank balances and cash in hand amount to 6,665 (previous year: 12,606) KEuros on the balance sheet date. The development of liquid funds is shown in the cash flow statement.

8.9 Shareholders' equity

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

8.9.1 Subscribed capital

The subscribed capital for KPS AG amounts to 37,412,100.00 (previous year: 37,412,100.00) euros on the balance sheet date and it is distributed over a total of 37,412,100 registered no-par value ordinary shares. The capital stock is fully paid up.

The treasury shares acquired and held on the balance sheet date are openly deducted from the subscribed capital with the nominal value of 121,241 (previous year: 121,241) euros. As a result of the reduction of the capital stock carried out in April 2016, seven own shares were redeemed. Owing to the capital increase carried out immediately afterward, the portfolio of treasury shares increased by 12,124 shares. The portfolio amounts to 133,365 shares on the balance sheet date.

8.9.2 Authorized capital

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

As a result of this resolution, the Executive Board is empowered with the consent of the Supervisory Board to increase the capital stock up until 6 April 2020 once or more than once up to a total of 18,706,050.00 euros against cash and/or non-cash contributions by the issue of new registered ordinary shares with no par value (no-par shares), subject to the possible exclusion of shareholders' pre-emptive rights.

There was no change in the authorized capital 2017/I during the business year 2016/2017.

8.9.2.1 Contingent capital

The resolution passed by the ordinary Annual General Meeting held on 7 April 2017 increased the capital stock by up to EUR 2,000,000,00 ordinary bearer par-value shares (contingent capital 2017/I). The contingent capital increase serves exclusively for the purpose of granting share option rights. The Executive Board was authorized to issue such rights up to 6 April 2022.

8.9.3 Capital reserve

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

The following table shows the development:

in KEuros	
Balance on 01.10.2015	-11,595
Capital gain from treasury shares	0
Share premium on capital increase	0
Balance on 01.10.2016	-11,595
Capital gain from treasury shares	0
Share premium on capital increase	0
Balance on 01.10.2017	-11,595

8.9.4 Retained earnings

The retained earnings came into being because the vesting period for the share option program from 2004 ended in the business year 2006/2007. In accordance with IFRS 2.23, the portfolio of share options after the date of the first exercise option opportunity has not been changed. Any resulting changes from fluctuation, expiry of the exercise right, etc. were reported in retained earnings. On account of the resolution relating to the appropriation of the net profit passed by the Annual General Meeting on 27 March 2015, a transfer of the amount of 3,000,000 euros was made to other retained earnings. On account of a resolution adopted by the Executive Board and the Supervisory Board, an amount of 1,000,000 euros was transferred from net income for the year before tax to other retained earnings in the course of preparing the annual financial statements. On account of the resolution passed by the Annual General Meeting on 15 April 2016, an amount of 3,401,100.00 from retained earnings was converted to capital stock.

8.9.5 Other earnings

Other earnings amounting to 647 (previous year: -944) KEuros comprise the revaluation of net liabilities and changes in the cash value of the obligation arising from a defined-benefit pension plan to a classifying fully insured BVG Plan of KPS Consulting AG, Zurich, Switzerland, owing to changes in the actuarial assumptions in accordance with IAS 19.

8.9.6 Net profit

The development of the net profit recognized on 30 September 2017 amounting to 40,476 (previous year: 32,979) KEuros is shown in the following table:

in KEuros	2016/2017	2015/2016
Balance on 01.10.	32,979	23,871
Earnings after income taxes	19,799	19,276
Share premium on treasuring shares	0	0
Allocation to other retained earnings	0	0
Dividend payout	-12,302	-10,168
Balance on 30.09.	40,476	32,979

The payout is based on the resolution adopted by the Annual General Meeting on 7 April 2017, according to which 0.33 (previous year: 0.30) euros were paid on each dividend-bearing share. The Annual General Meeting therefore concurred with the proposal by the Executive Board.

8.9.7 Treasury shares

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

Up to the balance sheet date, a total of 640,158 (of which in the business year 2016/17: none) no-par shares were purchased and 518,910 (of which in the business year 2016/17: none) were sold. No further shares were acquired in the business year for the portfolio amounting to 121,248 no-par shares on 30 September 2015. As a result of the reduction of the capital stock in the business year 2015/2016, seven own shares were redeemed, so that the total portfolio was reduced to 121,241 no-par shares on the balance sheet date. As a result of the resolution on a capital increase passed by the Annual General Meeting held in the business year 2015/2016, the portfolio of treasury shares was increased by 12,124 no-par shares to the total of 133,365 no-par shares on the balance sheet date.

8.10 Non-current provisions

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

in KEuros	01.10.2016	Utilization	Release	Addition	30.09.2017
Provision for personnel	771	-50	0	826	1,547
Provision for pensions IAS 19	983	0	-110	0	873
Total	1,754	-50	-110	826	2,420

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

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

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

The following table lists the disclosures required in accordance with IAS 19.
The valuation of the pension provisions from defined-benefit pensions systems is determined in accordance with the projected unit credit method using actuarial methods. Alongside assumptions about life expectancy (the BVG 2015 GT tables were used for this purpose), the determination was based on the following actuarial assumptions:

	2016/2017	2015/2016
1. Actuarial assumptions IAS 19.144		
Discount rate (DR) as at 01.10.	0.80 %	0.80 %
Discount rate (DS) as at 30.09.	0.20 %	0.20 %
Interest rate on retirement assets as at 30.09.	0.20 %	0.20 %
Future salary increases (SI) as at 30.09.	2.00 %	2.00 %
Future pension increases (PI) as at 30.09.	0.50 %	0.50 %
Future inflation as at 30.09.	0.50 %	0.50 %
Mortality tables	BVG2015 GT	BVG2015 GT
Date of the last actuarial valuation	30.09.17	30.09.16
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.	2,658	2,515
Capital value from plan assets as at 30.09.	1,784	1,532
Deficit / (surplus) as at 30.09.	873	983
Adjustment to upper limit	0	0
Net debt from defined benefit pension plans (assets) as at 30.09.	873	983
of which recognized as separate (asset)	0	0
of which recognized as separate liability	873	983
3. Components of defined benefit costs in the income statement IAS 19.140		
Current Service Cost (employer)	346	142
Past Service Cost	0	0
(Gains) and losses from plan compensation	0	0
Expenses from compounding of defined benefit obligations	5	14
Interest (income) from plan assets	-3	-10
Administrative costs plus costs for administration of plan assets	1	1
Components of the defined benefit costs recognized in the income statement	349	147
of which service and administration costs	347	143
of which net interest on the net debt from defined benefit pension plans (asset)	2	4
4. Components of defined benefit costs in OCI IAS 19.140		
Actuarial (gain) / loss on the cash value of the defined benefit obligation	-273	453
Income from plan assets plus interest income	23	22
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	-250	474
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	935	497
Component of the defined benefit costs recognized in the income statement	349	147
Components of the defined benefit costs recognized in the OCI	-250	474
Contributions by the employer	-160	-136
Other	0	0
Components of the defined benefit costs recognized in the OCI	873	983
6. Development of the cash value of the defined benefit obligations IAS 19.140 (a), 19.141		
Cash value of the defined benefit obligation as at 01.10.	2,392	1,411
Expenses of the cash value of the defined benefit obligation	5	14
Current Service Cost (employee)	346	142
Contributions by plan participants	160	136
(Paid-out)/paid-in benefits	27	359
Administrative costs (plus costs for administration of plan assets)	1	1
Actuarial (gain)/loss on the cash value of the defined benefit obligation (settlement amount)	-273	453
Cash value of the defined benefit obligation as at 30.09.	2,658	2,515
7. Components of actuarial gain/loss on obligations IAS 19.141		
Actuarial (gain)/loss on account of amendments to financial assumptions	-217	196
Actuarial (gain)/loss on account of amendments to demographic assumptions	0	0
Actuarial (gain)/loss on account of expectancy value adjustments	-56	257
Actuarial (gain)/loss from the cash value of the defined-benefit obligation	-273	453

	2016/2017	2015/2016
8. Development of the capital value from plan assets IAS19.140 (a), IAS 19.141		
Capital value from plan assets as at 01.10	1,457	914
Interest income from plan assets	3	10
Contributions by the employer	160	136
Contributions by the plan participants	160	136
(Paid-out)/paid-in benefits	27	359
Other	0	0
Income from plan assets plus interest income	-23	-22
Capital value from plan assets as at 30.09	1,784	1,532
8a. Actual income from plan assets		
Interest income from plan assets	3	10
Income from plan assets plus interest income	-23	-22
Actual income from plan assets	-20	-12
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	12,709	93,054
Total economic benefit available	12,709	93,054
9a. Recognizable amount under IAS 19.64		
(a) Deficit/(surplus) in the defined benefit plan		
- Cash value of the defined benefit obligation	-2,658	-2,515
+ Interest income from plan assets	1,784	1,532
Deficit/surplus (+ = asset value; - = liability)	-873	-983
(b) Upper limit, economic benefit available	12,709	93,054
Recognizable amount (lower than (a) and (b) if asset)	-873	-983
10. Estimate of the contributions from next year IAS 19.147 (b)		
Contributions by employers	158	177
Contributions by plan participants	158	177
11. Plan asset classes (non-listed price) IAS 19.142		
Cash and equivalent values	0	0
Equity instruments	0	0
Debt securities	0	0
Real estate	0	0
Derivatives	0	0
Investment funds	0	0
Asset-backed securities	0	0
Structured debts	0	0
Other	1,784	1,532
Total interest income on the capital value (non-listed price)	1,784	1,532
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 %	2,794	2,655
DBO as at 30.09. with DR +0.25 %	2,532	2,386
DBO as at 30.09. with SI -0.25 %	2,631	2,482
DBO as at 30.09. with SI +0.25%	2,684	2,541
DBO as at 30.09. with life expectancy + 1 year	2,695	2,554
DBO as at 30.09. with life expectancy - 1 year	2,620	2,476
SC of next year with DR +0.25 %	240	336
SC of next year with IR +0.25 %	266	372
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	19.5	21.1
Weighted average term of the cash value of the defined-benefit obligation in years for active members	19.5	21.1
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	2,658	2,515
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

8.10.1 Other non-current liabilities

The other non-current liabilities amount to 538 (previous year: 0) KEuros and relate to the earn-out obligation for the purchase of Saphira Consulting A/S, Denmark. The share of the earn-out component amounting to 574 KEuros, which is due within one year, can be found in the current section.

8.11 Deferred tax liabilities

Deferred tax liabilities result from temporary differences between the tax balance sheet and the consolidated balance sheet and amounted to 1,686 (previous year: 361) KEuros.

8.12 Trade liabilities

Trade liabilities result primarily from purchased consulting services.

8.13 Financial liabilities

On the balance sheet date, there were no liabilities to banks (previous year: 0 KEuros).

8.14 Advance payments received

Advance payments received amount to 1,540 (previous year: 145) KEuros and relate to 1,532 (previous year: 0) KEuros for advance payments received on production orders and 8 (previous year: 145) KEuros for service revenues received in advance which are accrued over future business years.

8.15 Tax provisions

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

in KEuros	01.10.2016	Utilization	Release	Addition	30.09.2016
Provision for corporate income tax	837	-764	0	806	879
Provision for trade tax	3,196	-529	-2,325	651	993
Total	**4,033**	**-1,293**	**-2,325**	**1,457**	**1,872**

The amount of 2,325 KEuros included in the provision for trade tax last year to take account of possible risks in conjunction with the trade tax recognition of restructuring profits received for the former autinform GmbH & Co. KG was released during the year under review, since the tax arrears payment was remitted for reasons of equity by the local authority of the business premises involved.

8.16 Other provisions

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

in KEuros	01.10.2016	Utilization	Release	Addition	30.09.2017
Provision for personnel	7,455	-7,396	-14	7,284	7,329
Provision for outstanding invoices	189	-167	-21	187	188
Provision for financial statements and auditing costs	121	-111	0	141	151
Other provisions	2,768	-724	-1.395	1,238	1,887
Total	10,533	-8,398	-1,430	8,850	9,555

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

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

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

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

8.17 Other liabilities

The other liabilities amount to 6,821 (previous year: 8,285) KEuros and their development is shown in the following table:

	30.09.2017		30.09.2016	
in KEuros	up to 3 months	3-12 months	up to 3 months	3-12 months
Liabilities to employees	3,084	0	2,638	0
Wage and church taxes due	996	0	853	0
Liabilities for sales tax and other taxes	1,446	0	2,470	0
Social security payments due	193	0	103	0
Earn-out 2016/2017 (getit GmbH)	0	449	0	1,555
Earn-out 2017/2018 (Saphira Consulting A/S)	0	574	0	0
Other liabilities	79	0	666	0
Total other liabilities	5,798	1,023	6,730	1,555

8.18 Liabilities for income tax

The tax liabilities amounting to 788 (previous year: 886) KEuros comprise liabilities for corporate income taxes (KEuros 314) and liabilities for trade taxes (KEuros 474) for previous years.

8.19 Reporting on financial instruments

8.19.1 Information on financial instruments by categories

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

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

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

	Valued at the fair value	Valued at amortized costs		Not within the scope of IFRS7 book value	Balance sheet items on 30.09.2017
in KEuros	Book value	Book value	Fair Value	Book value	
Current assets					
Future receivables from production orders	0 (previous year: 0)	5,442 (previous year: 174)	5,442 (previous year: 174)	0 (previous year: 0)	5,442 (previous year: 174)
Trade receivables	0 (previous year: 0)	37,450 (previous year: 34,485)	37,450 (previous year: 34,485)	0 (previous year: 0)	37,450 (previous year: 34,485)
Other receivables and financial assets	0 (previous year: 0)	1,180 (previous year: 1,471)	1,180 (previous year: 1,471)	164 (previous year: 159)	1,344 (previous year: 1,630)
Cash and cash equivalents	0 (previous year: 0)	6,665 (previous year: 12,606)	6,665 (previous year: 12,606)	0 (previous year: 0)	6,665 (previous year: 12,606)
Non-current liabilities					
Other non-current liabilities	538 (previous year: 0)	0 (previous year: 0)	0 (previous year: 0)	0 (previous year: 0)	538 (previous year: 0)
Current liabilties					
Financial liabilities	0 (previous year: 0)	0 (previous year: 0)	0 (previous year: 0)	0 (previous year: 0)	0 (previous year: 0)
Trade liabilities	0 (previous year: 0)	11,475 (previous year: 10,711)	11,475 (previous year: 10,711)	0 (previous year: 0)	11,475 (previous year: 10,711)
Other liabilities	574 (previous year: 0)	3,000 (previous year: 4,962)	3,000 (previous year: 4,962)	3,247 (previous year: 3,323)	6,821 (previous year: 8,285)

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

in KEuros	Valuation category in accordance with IAS 39 and IFRS 7	Book value 30.09.2017	Fair value 30.09.2017	Book value 30.09.2016	Fair value 30.09.2016
Current assets					
Cash and cash equivalents	LaR	6,665	6,665	12,606	12,606
Future receivables from production orders	LaR	5,442	5,442	174	174
Trade receivables	LaR	37,450	37,450	34,485	34,485
Other assets	LaR	1,180	1,180	1,471	1,471
Non-current liabilities					
Other non-current liabilities	FV	538	538	0	0
Current liabilities					
Current financial liabilities	FLAC	0	0	0	0
Trade liabilities	FLAC	11,475	11,475	10,711	10,711
Current other liabilities	FLAC	2,426	2,426	4,962	4,962
Current other liabilities	FV	574	574	0	0
Of which aggregated by valuation categories					
Loans and receivables (LaR)		50,737	50,737	48,736	48,736
Financial liabilities at Fair Value through profit or loss (FV)		1,112	1,112	0	0
Financial Liabilities Measured at Amortized Costs (FLAC)		13,901	13,901	15,672	15,672

All financial instruments in the categories LaR and FLAC were valued at amortized costs for the business year 2016/2017; the financial instruments in the category FV were measured affecting income at fair value.

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

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

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

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

	from interest	from subsequent valuation			from disposal	Net result
in KEuros		At fair value	Currency translation	Valuation allowance		2016/2017
Loans and Receivables (LaR)	0 (previous year: 3)	0 (previous year: 0)	-225 (previous year: -27)	-518 (previous year: -2)	-24 (previous year: -14)	-767 (previous year: -40)
Financial Assets Measured at Amortized Costs (FLAC)	40 (previous year: -23)	0 (previous year: 0)	0 (previous year: 0)	0 (previous year: 0)	0 (previous year: 0)	-40 (previous year: -23)
Financial Liabilities at Fair Value through profit or loss (FV)	0 (previous year: 0)	-99 (previous year: 0)	0 (previous year: 0)	0 (previous year: 0)	630 (previous year: 0)	531 (previous year: 0)

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

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

Hedging instruments as defined in IFRS 7.22f. were not used in the business year 2016/2017.

Valuations are at fair value:

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

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

In KEuros

Opening balance	**0**
Total gains/losses	-530
- Of which recorded in the income statement	-530
- Of which recorded in other comprehensive income	0
Reclassifications	0
Additional acquisitions	1,641
Issues	0
Terminations	0
Transfer from stage 3	0
Final balance	**1,112**

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

The total gains recorded as income during the business year include gains from the release of the earn-out liability amounting to KEUR 629 and losses arising from compounding amounting to KEUR 99.

8.19.2 Financial risk management

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

→ Liquidity risks
→ Credit risks / Default risks
→ Market price risk.

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

Capital management is measured on the basis of net liquidity. The company management pursues the goal of achieving a continuous and sustainable increase in corporate value. The equity of the Group corresponds to the balance sheet equity. The ratio of the equity to the balance sheet total (equity ratio) amount to 64.3 percent as at 30 September (previous year: 60.9 percent)

8.19.3 Liquidity risk

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

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

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

Previous year	**Book value**	**Payment obligations**		
in KEuros	30.09.2016	2016/2017	2017/2018 to 2019/2020	2020/2021 ff.
Financial liabilities	0	0	0	0
Trade liabilities	10,711	10,711	0	0
Other liabilities	8,285	8,285	0	0
Liabilities from income taxes	886	886	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.

8.19.4 Credit and default risks

KPS is exposed to a credit risk with the effect that the value of the assets could be impaired if customers or other debtors are unable to meet their obligations. The creditworthiness of individual customers or business partners with high order volumes is reviewed in order to minimize credit risks.
A risk concentration for major customers pursuant to IFRS 8.34 is determined. The open receivables arising from this amount to 10,914 (previous year: 13,282).

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

Business year

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

Previous year

in KEuros	Neither overdue nor impaired	Overdue and not impaired	Impaired	30.09.2016
Future receivables from production orders	174	0	0	174
Trade receivables	29,036	5,405	44	34,485
Other assets	1,630	0	0	1,630
	30,840	5,405	44	36,289

Nominal amounts for receivables due of 1,304 (previous year: 44) KEuros are included in the impaired receivables which were impaired by 548 (previous year: 44) KEuros.

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

Business year

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

Previous year

in KEuros	less than 30 days	31 to 90 days	more than 90 days	30.09.2016
Other loans	0	0	0	0
Trade receivables	3,806	326	1,273	5,405
Other assets	0	0	0	0
	3,806	326	1,273	5,405

8.19.5 Market risks

Currency risks / Exchange rate risks

The companies of the KPS Group conduct their business transactions almost exclusively in euros. Danish krones, and Swiss francs. Since the business year 2016/2017, business transactions have also been conducted in USD, although so far this has only been to a limited extent. If the scope of business is extended there will therefore be exchange rate risks in future.

Interest risks

As far as necessary, the Group is financed with short-term current account credit lines which are available for an unlimited period of time. The interest rates are adjusted by the creditor every six months. Short-term loans have also been taken out with an agreed fixed interest rate for a limited period of time.

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

Price risks

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

8.20 Contingent liabilities and other financial obligations

8.20.1 Contingent liabilities

KPS Business Transformation GmbH, KPS Consulting GmbH & Co. KG and KPS Services GmbH have each given a maximum liability guarantee amounting to 2,000 KEuros for hedging current-account credit lines. KPS Services GmbH also has a further maximum liability guarantee amounting to 8,000 KEuros to hedge current-account credit lines. There were no current account liabilities on the balance sheet date (previous year: 0).

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

8.20.2 Financial liabilities

The following table shows the development of other financial liabilities:

	30.09.2017				30.09.2016			
in KEuros	less than 1 year	1-5 years	More than 5 years	Total	less than 1 year	1-5 years	More than 5 years	Total
Vehicle leasing	1,086	996	0	2,082	1,238	1,042	0	2,280
Operating and business equipment leasing	807	944	0	1,751	492	424	0	916
Rent	1,162	854	0	2,016	1,037	1,000	0	2,037
Total	3,055	2,794	0	5,849	2,767	2,466	0	5,233

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

Payments from rental and leasing relationships, which were recorded in the reporting period as expenses, amount to 2,807 (previous year: 2,417) KEuros.

8.21 Risks to continuing existence as a going concern

The KPS consolidated financial statements were prepared for the business year 2016/2017 under the premise of the continuing existence of the company as a going concern. In this connection, the management is assuming a positive forecast for continuing as a going concern so that the Group can continue its business activities while complying with its payment obligations during the current and subsequent business years. Risks for the continuing existence of the KPS Group as a going concern are not identifiable at the present point in time.

9 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 6,665 (previous year: 12,606) KEuros. At the end of the period under review, there were no bank liabilities.

The decreased net liquidity compared with the previous year is primarily due to the acquisitions carried out during the source of the business year and the associated cash outflows. The cash outflow on account of financial activity primarily results from the dividend payout in accordance with the resolution adopted by the Annual General Meeting held on 7 April 2017. The cash outflows for investments into long-term tied assets amounted to -12,393 (previous year: -3,963) KEuros. The increase in investment activity primarily results from the acquisition of Group companies, and development work amounting to 4,773 (previous year: 1,468) KEuros carried out.

9.1 Inflow/outflow from operating activities

The cash flow from operating activities decreased by 3,505 KEuros to 16,787 KEuros compared with the previous year. This is due in particular to the rise in trade receivables, which increased during the business year from 34,485 KEuros to 37,450 KEuros, and the increase in future receivables from production orders amounting to 5,268 KEuros

9.2 Inflow/outflow from investment activities

The cash flow on account of investment activities was increased by 3,963 KEuros from 8,430 KEuros to 12,393 KEuros during the course of the business year. Apart from investments made in development work was carried out for intangible assets developed in-house and payments for company acquisitions during the business year.

9.3 Inflow-outflow from financial activities

The change in cash flow on account of financial activities by 2,132 KEuros to 12,341 KEuros results from the increase in dividend payment made amounting to 12,302 (previous year: 10,167) KEuros.

10 OTHER EXPLANATIONS AND SUPPLEMENTARY INFORMATION

10.1 Auditor fees

Fees amounting to 110 (previous year: 100) KEuros for the services provided by the auditor Baker Tilly GmbH & Co. KG, Wirtschaftsprufungsgesellschaft, Munich, are recognized as expenses for services in connection with auditing the financial statements. The fees for services in relation to auditing the financial statements mainly comprise remuneration for auditing the consolidated financial statements and for auditing the financial statements of KPS AG and their domestic subsidiary companies. Fees for audit-related services or activities were only paid to Baker Tilly GmbH & Co. KG, Wirtschaftsprufungsgesellschaft, in the amounts indicated below.

A provision of 11 (previous year: 1 1) KEuros was set aside for audit services provided by the Swiss subsidiary company KPS Consulting AG in the business year.

A provision of 25 (previous year: 8) KEuros was recognized for audit services provided by the Danish subsidiary companies KPS Consulting A/S and Saphira Consulting A/S in the business year.

Auditor fees

in KEuros	2016/2017	2015/2016
Services for auditing the financial statements	110	100
Other confirmation services	133	1
Tax consulting services	0	0
Other services	52	0
Total	295	101

10.2 Related parties

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

The payments of the members of the governance bodies of KPS AG are recorded in the information in the notes to the financial statements Section 10.2.2 and 10.2.4 and in the compensation report in the Management Report.

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

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

10.2.1 Existing shareholders of KPS Business Transformation GmbH

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

→ Dietmar Müller: 7,822,286 shares (previous year: 9,316,884 shares); voting rights of approx. 20.91 % (previous year: approx. 24.90 %)

→ Michael Tsifidaris: 9,080,050 shares (previous year: 10,543,382 shares); voting rights of approx. 24.27 % (previous year: approx. 28.18 %)

→ Leonardo Musso: 4,103,084 shares (previous year: 4,834,751 shares); voting rights of approx. 10.97 % (previous year: approx. 12.92 %)

→ Uwe Grünewald: 4,052,390 shares (previous year: 4,784,057 shares); voting rights of approx. 10.83 % (previous year: approx. 12.79 %).

The total remuneration of existing shareholders on account of existing contracts of employment with Group companies amounts to 2,256 (previous year: 2,472) KEuros in the year under review.

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

10.2.2 Executive Board

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

→ Mr. Leonardo Musso: 4,103,084 shares (previous year: 4,834,751 shares)

The total compensation of the Executive Board reported as expenses amounted to 1,028 (previous year: 1,250) KEuros in the business year 2016/2017. Compensation is comprised of fixed and variable components and they are due in the short term.

Mr. Dietmar Müller was a Member of the Administrative Board of KPS Consulting AG, Zurich, Switzerland, and the Board of Directors at KPS Consulting A/S, Copenhagen, Denmark from 1 October 2016 to 31 May 2017.

Mr. Leonardo Musso is a Member of the Administrative Board of KPS Consulting AG, Zurich, Switzerland, of the Board of Directors at KPS Consulting A/S and at Saphira Consulting A/S, both with registered office in Virum, Denmark. Mr. Musso also has the post of CEO at KPS B.V., Netherlands and at KPS Consulting Inc., USA

10.2.3 Extended management circle

70 (previous year: 65) persons were members of the extended management circle on the balance sheet date.

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

Total compensation amounting to 16,910 (previous year: 17,264) KEuros was paid to the extended management circle for the past business year. This comprised compensation to the extended management circle with a significant shareholding in the amount of 1,228 (previous year: 1,221) KEuros and compensation to the members of the extended management circle with no significant shareholding in the amount of 15,682 (previous year: 16,043) KEuros.

A provision amounting to 1,547 (previous year: 771) KEuros was set aside to cover expenses for future defined benefit claims on account of the function of Vice President introduced in the business year 2012/2013 in respect of four persons of the extended management circle.

10.2.4 Supervisory Board

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

Mr. Tsifidaris and Mr. Grünewald have contracts of employment with KPS Business Transformation GmbH. The expenses for the business year 2016/2017 amounted to 1.228 (previous year: 1,221) KEuros and include fixed and variable compensation elements.

A consulting contract was in place with Mr. Hans-Werner Hartmann in the year under review.
As in the previous year, no expenses were incurred during the year under review.

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

10.2.5 Other related persons

A contract of employment was in place with Ms Veronika König, daughter of Mr. Uwe Grünewald (Member of the Supervisory Board), in the business year. The expenses paid amounted to 91 (previous year: 86) KEuros.

A contract of employment was in place with Mr. Markus Müller, son of Mr. Dietmar Müller (Member of the Executive Board until 31 May 2017), in the business year. The expenses paid amounted to 18 (previous year: 49) KEuros in the business year. The contract of employment ended on 28 February 2017.

10.3 Governance bodies of the company

10.3.1 Executive Board

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

- → Mr. Dietmar Müller, Member of the Executive Board KPS AG, Grünwald (up to 31 May 2017).
- → Mr. Leonardo Musso, Member of the Executive Board KPS AG, Berg.

10.3.2 Supervisory Board

The Supervisory Board is unchanged from the previous year and comprises

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

- → Mr. Uwe Grünewald (Authorized Signatory – Prokurist)
  KPS Business Transformation GmbH, Leichlingen,

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

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

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

Please refer to our comments under 10.2.2 and 10.2.4 in relation to the compensation of the Executive Board and the Supervisory Board.

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

11 EVENTS AFTER THE BALANCE SHEET DATE

On 11 October 2017, Dietmar Müller announced the start of a book-building process to institutional investors in order to reduce his shareholding. Effective 12 October 2017, the co-founders of the company registered a shareholding of around 10.5 % in KPS AG. The successful re-allocation increased the free float to around 36.5 %.

12 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).

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

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

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

KPS AG, Unterföhring, draws up consolidated financial statements as the ultimate parent company as at 30 September 2017. This is published in the German Federal Gazette (Bundesanzeiger).
The following companies are exempted from their obligation of drawing up, auditing and publishing annual financial statements and a management report pursuant to Article 264 Section III, 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

Unterföhring, 29 January 2018

The Executive Board
Leonardo Musso

KPS Group

Development of the fixed assets (gross presentation)

ITEM	ACQUISITION OR PRODUCTION COSTS				
in KEuros	01.10.2016	Additions	Additions from company mergers	Disposals	30.09.2017
I.) Intangible assets					
1. Concessions, industrial property rights and similar rights and assets, and licenses in such rights and assets					
a.) if acquired	3,446	661	3,609	0	7,716
b.) if internally generated	2,351	5,141	0	0	7,492
2. Goodwill	45,488	0	1,755	0	47,243
Intangible assets	51,285	5,802	5,364	0	62,451
II.) Property, plant and equipment					
1. Business and office equipment	2,597	160	1	34	2,724
2. Low-value assets	1	35	0	36	0
3. Advance payments received	0	0	0	0	0
Property, plant and equipment	2,598	195	1	70	2,724
Total fixed assets	53,883	5,997	5,365	70	65,175

ACCUMULATED DEPRECIATION				BOOK VALUE	
01.10.2016	Additions	Disposals	30.09.2017	30.09.2017	30.09.2016
3,034	1,177	0	4,211	3,505	412
731	203	0	934	6,558	1,620
15,016	0	0	15,016	32,227	30,472
18,781	1,380	0	20,161	42,290	32,504
1,463	277	10	1,730	994	1,134
1	0	1	0	0	0
0	0	0	0	0	0
1,464	277	11	1,730	994	1,134
20,245	1,657	11	21,891	43,284	33,638

Notifications

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

Pursuant to Article 33 Section 1 or 2 of the Securities Trading Law (WpHG), any shareholder who reaches, exceeds or falls below the thresholds of 3, 5, 10, 15, 20, 25, 30, 50 or 75 % of the voting rights of a company listed on the stock exchange must immediately inform the company and the Federal Financial Supervisory Authority (BaFin) of this, but at the latest within four trading days. As at 30 September 2017, the company was informed of the following shareholdings in accordance with Article 33 Section 1 Securities Trading Law (WpHG) and the shareholdings were published in accordance with Article 40 Section 1 Securities Trading Law (WpHG) (the corresponding percentage and voting-rights figures relate to the total number of voting rights at the time of the relevant notification and may therefore have changed in the meantime):

Statutory notifier	Date of the publication in accordance with Article 40 WpHG	Date the threshold was reached	Reason for the notification
Grünewald, Uwe	04.01.2016	01.01.2016	End of the voting agreement (acting in concert) at the end of the day on 31.12.2015, falling below the thresholds of 75, 50, 30, 25, 20, 15 %
Müller, Dietmar	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 %
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 %
Allianz SE	03.07.2017	28.06.2017	Exceeding the thresholds of 3 and 5 %
Union Investment Privatfonds GmbH	30.06.2017	28.06.2017	Exceeding the threshold of 3 %
Tasaheli Beteiligungs-gesellschaft mbH	21.08.2014	04.08.2014	Exceeding the threshold of 3 %
Dr. Krämerkämper, Thomas	21.08.2014	04.08.2014	Exceeding the threshold of 3 %

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

Percent	Votes	Vote allocation in accordance with Article 34 WpHG
12.79	4,349,143	- - -
24.90	8,469,895	- - -
12.92	4,395,299	- - -
24.27	9,080,050	- - -
6.68	2,500,000	6.68 % Chain of controlling companies (from top down): Allianz SE, Allianz Europe B.V., Allianz Holding France SAS, Allianz France S.A., Allianz I.A.R.D. S.A.
3.85	1,440,000	3.85 % Statutory notifier is not controlled by and does not control other companies with voting rights relevant to notification
4.08	1,387,386	- - -
4.08	1,387,386	4.08 % by Tasaheli Beteiligungsgesell-schaft mbH

Events after the end of the end of the reporting period

On 11 October 2017, Dietmar Müller announced the start of a book-building proces to institutional investors in order to reduce his shareholding. Effective 12 October 2017, the co-founder of the company registered a shareholding of around 10.5 % in KPS AG. The successful reallocation increased the free float to around 36.5 %.

On 14 December 2017, KPS AG signed a purchase contract for the acquisition of all the shares in Infront Consulting & Management GmbH, Hamburg. Infront Consulting & Management GmbH is a leading strategy advisor for digitalization in the German-based area. The company was most recently awarded the Innovation Prize by business magazine Wirtschaftswoche in 2017 and the Hidden Champion Award for digitalization in 2018 by business magazine Capital. Infront will continue as an independent brand within the KPS Group and it will spearhead strategy consultancy on the issue of digital transformation. The transaction is projected to close at the end of 2018. The parties have reached a confidentiality agreement on the modalities of the merger.

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, 29 January 2018

The Executive Board

Independent Auditor's Report

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

Opinions

We have audited the consolidated financial statements of KPS AG, Unterföhring, and its subsidiaries (the Group), which comprise the consolidated balance sheet as of September 30, 2017, the consolidated statements of income and comprehensive income for the fiscal year from October 1, 2016 to September 30, 2017, the consolidated changes in equity and of cash flows for the fiscal year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies. We have also audited the group management report of KPS AG for the fiscal year from October 1, 2016 to September 30, 2017.

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

- the accompanying consolidated financial statements comply, in all material respects, with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the supplementary provisions of German law pursuant to Sec. 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 of September 30, 2017 and of its results of operations for the fiscal year from October 1, 2016 to September 30, 2017 in accordance with these requirements, and
- the accompanying group management report as a whole provides a suitable view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with the provisions of German law and suitably presents the opportunities and risks of future development.

In accordance with Sec. 322 (3) Sentence 1 HGB, we hereby state that our audit has not led to any reservations regarding the compliance of the consolidated financial statements and the group management report.

Basis for opinions

We conducted our audit of the consolidated financial statements and the group management report in accordance with Sec. 317 HGB and Regulation (EU) No 537/2014; in the following "EU-APrVO" ("EU-Abschlussprüferverordnung") [EU Audit Regulation] as well as German generally accepted standards on auditing promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those laws, rules and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the group management report" section of our report. We are independent of the group companies in accordance with European and German commercial law and professional provisions, and we have fulfilled our other German ethical responsibilities in accordance with these requirements. Furthermore, in accordance with Art. 10 (2) f) of the EU-APrVO, we declare that we have not provided any prohibited non-audit services referred to in Art. 5 (1) of EU-APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions 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 fiscal year from October 1, 2016 to September 30, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

- impairment of goodwill
- acquisition of the shares in Saphira Consulting A/S
- impairment of deferred tax assets

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

1. state of facts and key problem
2. audit procedure and findings
3. reference to further information

Below we present the key audit matters:

Impairment of Goodwill

1. Goodwill amounting to EUR 32.2 million is recognized in the consolidated financial statements reported in the balance sheet under "goodwill" thus representing about 31 % of the balance sheet total. The company allocates the goodwill to the relevant groups of cash generating units (CGU). Goodwill is assessed for impairment annually at the balance sheet date or as required by the company ("impairment test"). Basically, determined value in use is compared there to the carrying amounts of the respective group of CGUs. Basis for these assessments is regularly the cash value of future estimated cash flows of the CGU, to which the respective goodwill is attributable. The assessments are based on the forecast figures of the individual CGUs, depending on 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 company's 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 management's assumptions and estimates and performed inter alia the following audit procedures:
   - We reproduced the methodical approach for performing the impairment tests and evaluated the WACC calculation.
   - We made sure that the future estimated cash flows underlying the assessments and the discounting interest rates adopted are, as a whole, an appropriate basis for the impairment test of the individual CGUs.
   - For our assessments we balanced inter alia general and sector-specific market expectations as well as extensive explanations of the management on the key value drivers of the planning and also relied on a comparison of those data with the current budgets of the planning approved by the supervisory board.
   - Knowing that even little changes of the discounting interest rate may have major effects on the value in use established by this way we followed up the parameters used for determining the adopted discounting interest rates inclusively the WACCs and retraced the company's calculation schedule.
   - In addition we performed further on particular sensitivity tests for selected CGUs in order to be able to evaluate a potential impairment risk of a change deemed possible in an essential assumption of the assessment. The selection was based on qualitative aspects and the amount of surplus of the respective carrying amount by the value in use.

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

3. The company's disclosures to goodwill are comprised in item no. 8.2 of the Notes.

Acquisition of the shares in Saphira Consulting A/S

1. By contract dated December 2, 2016 the acquisition of Saphira Consulting A/S, Virum, Denmark, via the subsidiary KPS Consulting A/S, Copenhagen, Denmark, was agreed upon. The closing of the transaction and the first-time consolidation in the framework of a purchase price allocation according to IFRS 3 took place on January 5, 2017. The cash purchase price totaled EUR 2.9 million. Furthermore profit related purchase price components (conditional purchase price conditions) for the financial years 2016/2017 to 2018/2019 were been agreed upon. Regarding the fair value of the conditional considerations a total consideration of EUR 6.5 million results at the first-time consolidation and an acquired goodwill of EUR 1.8 million. Due to the overall substantial impacts in amount of the company acquisition on the net assets, financial position, and results of operations of the company and due to the complexity of the valuation of company acquisitions, these were matters of most significance within our audit.

2. To address this risk we critically questioned management's assumptions and estimates and performed inter alia the following audit procedures:
   - Inspection of the contractual agreements and obtaining of an understanding of the company acquisition as well as

reconciliation of the purchase price paid as consideration for the shares obtained with the evidence presented by us of the payments made.
- Assessment of the revaluation of assets and liabilities of Saphira in the context of a purchase price allocation performed by an extern expert regarding its usability.
- Obtaining an understanding of the initial data on which the expert report is based and the assumptions made resp. used.
- Assessment of the opening balance sheet amounts and examination of the first-time consolidation of Saphira at the first-time consolidation date January 5, 2017 based on the purchase price allocation.

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

3. The company's disclosures to the merger are comprised in item no. 6.1 of the Notes.

Impairment of deferred tax assets

1. KPS AG exhibits deferred tax assets totaling EUR 8.6 million in its consolidated financial statements under "deferred tax assets", thereof EUR 7.8 million deferred tax assets due to tax loss carryforwards.

Deferred tax assets are recognized to the extent to which, according to the estimates of the legal representatives, it is probable that in 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 resp. the legislative process is basically completed. In our opinion those matters were of most significance because they highly depend on estimates and assumptions of the legal representatives and are subject to uncertainties.

2. To address this risk we critically questioned management's assumptions and estimates and performed inter alia the following audit procedures:
   - In the context of our audit of tax issues involvement of internal experts from the field of tax accounting in our audit team.
   - Obtaining an understanding of management's concept of the accounting process of deferred taxes.
   - Evaluation of recognition and measurement of deferred taxes.
   - Assessment of the impairment, as far as there were not enough deferred taxes, on the basis of the tax planning calculation of the legal representatives and valuation of the adequacy of the planning basis applied.

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

3. The company's disclosures to the deferred taxes are comprised in item no. 7.9 of the Notes.

Other information

Management is responsible for the following other information:

- Interview with the management board of Chapter A of the Annual Report 2016/2017,
- KPS on the capital market in Chapter A of the Annual Report 2016/2017,
- The Responsibility Statement of the legal representatives in Chapter E of the Annual Report 2016/2017,
- The Corporate Governance Statement in Section 7. of the Group Management Report 2016/2017,
- The Compliance Statement in Section 7. of the Group Management Report 2016/2017.

The Supervisory Board is responsible for the following other information:

- Report of the Supervisory Board in Chapter A of the Annual Report 2016/2017.

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

In connection with our audit, our responsibility is to read the other information, and, in doing so, consider whether the other information

- is materially inconsistent with the consolidated financial statements, the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

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

Management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the supplementary provisions of German law pursuant to Sec. 315e (1) HGB, for the preparation of consolidated of financial statements that give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

In addition, management is responsible for the preparation of the group management report that as a whole provides a suitable view of the Group's position and, in all material respects, is consistent with the consolidated financial statements, complies with the provisions of German law and suitably presents the opportunities and risks of future development and for such arrangements and measures (systems) as management deems necessary to enable the preparation of a group management report in accordance with the applicable provisions of German law and to furnish sufficient appropriate evidence for the statements in the group management report.

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

Auditor's responsibilities for the audit of the consolidated financial statements and the group management report

Our objectives are to obtain sufficient assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides a suitable view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and our audit findings, complies with the provisions of German law and suitably presents the opportunities and risks of future development, and to issue an independent auditor's report that includes our opinions on the consolidated financial statements and the group management report.

Sufficient assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation EU-APrVO as well as generally accepted standards on auditing promulgated by the IDW will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and the group management report.

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 the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. 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 the arrangements and measures relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems,
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management,
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the group management report or, if such disclosures are inadequate, to modify our respective opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern,
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent 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 accordance with IFRSs as adopted by the EU and the supplemental provisions of German law applicable pursuant to Sec. 315e (1) HGB,
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions,
- evaluate the group management report's consistency with the consolidated financial statements, its compliance with the legal provisions and the view it gives of the Group's position,
- perform procedures on the forward-looking statements made by management in the group management report. In particular, on the basis of sufficient appropriate audit evidence, we walk through the significant assumptions underlying management's forward-looking statements and assess whether the forward-looking statements were appropriately derived from these assumptions. We do not provide a separate opinion on the forward-looking statements and underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking statements.

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

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and related 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

Other reporting items in accordance with Art. 10 of the EU Regulation (EU-APrVO)

We were elected as auditor of the consolidated financial statements by the Annual Shareholders' Meeting on April 4, 2017. We were engaged by the Supervisory Board on June 23, 2017. We have been the auditor of KPS AG for an uninterrupted period since the audit of the consolidated statements for the fiscal year 2015/2016.

We confirm that the audit opinions included in this auditor's report are consistent with the additional report to the Audit Committee in accordance with Art. 11 of the EU Audit Regulation, EU-APrVO, (audit report).

We performed the following services in addition to the audit of the consolidated financial statements for the Group that were not disclosed therein or in the group management report.

- Financial and tax due diligences
- Support in the introduction of a Group Accounting Guideline according to IFRSs.

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Joachim Weilandt.

Munich, January 30, 2018

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)
(formerly Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft)

Frank Stahl	Joachim Weilandt
Wirtschaftsprüfer	Wirtschaftsprüfer
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