GROUP

ANNUAL REPORT

2021

OVERVIEW OF THE CONSOLIDATED RESULTS

in million euros	**2020/2021**	**2019/2020**
Group sales	158.0	166.4
EBITDA	21.6	22.7
EBIT	13.4	14.1
Group earnings	8.7	8.1
Earnings per share (in euros)	0.23	0.22
Cash and cash equivalents	8.1	20.1
Financial liabilities	21.3	32.6

TO THE SHAREHOLDERS

2021

THE CEO OF KPS

Ladies and Gentlemen, Dear Shareholders,

In the past financial year 2020/2021, the Corona pandemic was again omnipresent and continued to pose major challenges for the KPS Group. Demand for large-scale digital transformation projects, particularly in our German home market, remained subdued. Our activities abroad and our services in the area of e-commerce and omni-channel solutions developed favourably.

Our business model has proven itself in this difficult phase. KPS was not able to completely escape the uncertainties, especially in our focus sector of retail, and recorded a decline in revenue of 5.1 % or € 8.5 million to € 158.0 million in the financial year 2020/2021. However, our flexible structures and our ability to adapt quickly meant that we were able to almost completely compensate for the negative effects at the EBITDA and EBIT level. EBIT therefore decreased by "only" € 0.7 million to € 13.4 million. The EBIT margin of 8.5 % was at the same level as the previous year. Our international activities proved to be a stable anchor for the KPS Group. We were able to achieve revenue growth of 9.1 % abroad and generated 57.2 % of our consolidated revenues through international activities.

The coronavirus crisis did not prevent us from driving forward our business model and our powers of innovation. We further developed our Rapid-Transformation® Method in order to create the Instant Transformation Platform Family. This additionally empowers us to ramp up the speed of digital transformation so that our customers are able to roll out innovation and new business models even more quickly in the marketplace. Instant Transformation is all about platforms that can be deployed straight away and solutions with immediate effect, truly nuanced differentiation and tangibly more security in transformation. KPS customers are able to use the KPS Instant Platforms tailored specifically to their sector in order to facilitate standardization and for highly individualized solutions along the entire value chain. We continue to make use of the market-leading technology components of SAP and cutting-edge Customer Experience Cloud Solutions in order to achieve these outcomes for our customers. We want to launch a new era of growth for KPS through this innovation and ongoing development to create Instant Transformation.

As the Chief Executive Officer of KPS, I should like to extend a very big Thank You to our employees, clients, suppliers, business partners, service partners and naturally to you, esteemed shareholders. Without your confidence, support and willing commitment, we would not have been able to overcome the current shocks and uncertainties besetting the KPS Group with such an outstanding degree of success.

My thanks also go to our loyal customers, many of which have continued to drive forward their digitalization projects on our journey together. We were able to provide newly acquired customers with fast and flexible support in adapting to the new situation, and developed e-commerce shops and omnichannel solutions for them. Finally, I would like to express my thanks to all our suppliers and business partners for their cooperation in an atmosphere of trust over many years.

Our innovative strength and quality as a specialist for transformation and digitalization consulting is once again highlighted by numerous awards. For example, in May 2021, SAP named us one of the top 3 partners in the Customer Experience category among 20,000 partners worldwide In June, Compamedia rated KPS as one of the most innovative companies in its Top 100 innovation competition, and our strategy experts at Infront were named Hidden Champion Digitalisation by WGMB for the third time in a row, outperforming other renowned consulting firms.

In the new business year 2021/2022, the challenges continue to be high. We are unable to reliably assess the impact of the ongoing pandemic on the demand behaviour of existing and potential customers and our business situation. However, on the basis of information available when the report was prepared, the Executive Board estimates that sales of the KPS Group in the business year 2021/2022 can be increased in the medium to high single-digit percentage range and believes that it should be possible to generate an EBITDA at least at the level of the previous year.

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

Munich, January 2022

Your Executive Board

Leonardo Musso

THE KPS SUPERVISORY BOARD

Dear Shareholders,

The Supervisory Board provides information on its activity during the business year 2020/2021 in the following report. The report focuses in particular on the continuous dialog with the Executive Board, the main issues for consultation at the meetings of the Supervisory Board, and the audit of the annual and consolidated financial statements.

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

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

During the course of the business year 2020/2021, the Executive Board regularly kept the Supervisory Board informed with prompt and comprehensive reports on issues relevant to the company relating to planning, business development, the risk position, strategic measures, as well as about important business transactions and projects. Written reports on the individual business segments were prepared in good time prior to the individual meetings of the Supervisory Board and they were then reviewed by the Supervisory Board. Any deviations in the business performance from the defined plans and targets were explained to the Supervisory Board with appropriate substantiation, and these issues were discussed by the Supervisory Board. The deviations in business performance relate in particular to the measures for overcoming the ongoing waves of the coronavirus crisis. The Supervisory Board always had adequate opportunity to engage critically with the reports and resolution proposals of the Executive Board and to obtain appropriate assurance of the lawfulness, expediency, and fit and properness of the management of the business.

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

Alongside numerous informal meetings, telephone calls and video conferences, the Supervisory Board convened for a total of seven official meetings in the business year 2020/2021. At the Supervisory Board meeting held on 21 May 2021, the Members of the Supervisory Board and the Chief Executive Officer were present in person. All the other Supervisory Board meetings were held in the form of videoconferences for health and safety reasons.

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

At the meeting held on 15 January 2021, the Compliance Declaration on the German Corporate Governance Code was reviewed and the Chairman of the Supervisory Board was granted the power to sign the document. The auditors and the Executive Board then presented the provisional annual financial statements, and management report, the audited consolidated annual financial statements and the Group Management Report of the company, in each case for the business year 2020/2021, along with the respective audit reports. They reported on the key results and focuses of the audit examination. The Supervisory Board resolved to approve the annual financial statements at a special meeting. The contractual situation relating to the expiry of the contract of the Chief Executive Officer on 31 December 2021 was then discussed with a view to a contractual extension.

On 21 January 2021, the annual financial statements along with the management report and the consolidated financial statements along with the Group Management Report were approved for the business year 2019/2020 and the Report of the Supervisory Board was also adopted for the business year 2019/2020. The Executive Board then reported on the economic development in the first quarter of the business year 2020/2021. The existing board contract of the Chief Executive Officer was extended by the recommendations of the Corporate Governance Code. The Supervisory Board consented to an extension of the board contract for a further five years by passing a separate resolution.

At the meeting of the Supervisory Board held on 26 March 2021, the Supervisory Board approved the modalities for holding another virtual Annual General Meeting against the background of the current coronavirus situation. The invitation and the agenda for the Annual General Meeting were then presented by the Executive Board and approved by the Supervisory Board. A resolution was then passed by the Supervisory Board on the board compensation system for the Executive Board pursuant to Article 87 a Section 1 Sentence 1 Stock Corporation Act (AktG) and the system was adopted.

At the meeting held on 21 May 2021, the Supervisory Board discussed the Annual General Meeting also held on this day, the half-year results explained by the Executive Board, the status of the ongoing legal dispute and the status of potential company acquisitions. No further resolutions were passed.

The last two meetings of the Supervisory Board were held on 11 June 2021 and on 3 August 2021. The board deliberated on the implementation of a concrete company acquisition. Discussions took place on submission of a non-binding and then a binding purchase offer and a decision was reached. Ultimately, the transaction did not materialize.

The Members of the Supervisory Board take personal responsibility for carrying out the training and advanced training measures necessary for their duties. They are supported appropriately by the company.

Self-assessment:

The Supervisory Board regularly reviews how effectively it carries out its functions. The self-assessment focuses in particular on the procedural processes in the Supervisory Board and the information flow between the Supervisory Board and the Executive Board, and the prompt delivery of information with appropriate content to the Supervisory Board. In view of the size of the company and the smooth information flows between the Supervisory Board and the Executive Board, the self-assessment was carried out without any external advisers. The review arrived at a positive result as was also the case in the previous year.

Corporate Governance:

The requirements of the German Corporate Governance Code constituted another important matter. The Executive Board and the Supervisory Board decided to adopt the recommendations of the German

Corporate Governance Code with various exceptions, which are related to the size of the company. The Executive Board and the Supervisory Board regard the Code as an important step towards transparency, corporate governance, and control. On 15 January 2021, the Supervisory Board devoted time to the regular discussion of the topic of corporate governance and passed a resolution on the new joint Declaration of Compliance of the Supervisory Board and the Executive Board for the year 2020 pursuant to Article 161 Stock Corporation Act (AktG). This will be published permanently on the Internet pages of the company together with the old Declaration of Compliance. One of the exceptions to the Corporate Governance Code includes the fact that the Supervisory Board does not form separate committees because of its size. The internal compliance issues within the Group were also the subject of the regular discussion and review at the meeting referred to.

Composition of the Supervisory Board:

During the entire business year 2020/2021, the following persons were Members of the Supervisory Board:

Mr Michael Tsifidaris, Chairman

Mr Hans-Werner Hartmann, Deputy Chairman

Mr Uwe Grünewald

Mr Hans-Werner Hartmann is a 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 Act (AktG). All the Members of the Supervisory Board are familiar with the sector in which the company is operating.

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

Review of possible conflicts of interest:

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

Annual and consolidated financial statements for 2020/2021:

The auditing firm Baker Tilly GmbH & Co. KG Wirtschaftsprufungsgesellschaft, Munich, appointed as auditor of the annual financial statements and consolidated financial statements by the Annual General Meeting held on 21 May 2021, audited the bookkeeping, the annual financial statements of KPS AG, and the consolidated financial statements including the management reports for the business year 2020/2021 and granted each of the documents in each case an unqualified audit opinion. There are no doubts about the independence of the auditor of the financial statements, who submitted the required declaration of independence. The requirements of the German Corporate Governance Code regulating the terms of engagement between the company and the auditing firm have been complied with. The auditor has submitted a comprehensive report on the result of the audit, which was carried out on the complete annual financial statements of the Group and all its subsidiary companies. The annual financial statements of the Group and all the subsidiary companies were provided, as were the report on the audit of the consolidated financial statements and the audit of the separate financial statements of the joint-stock company (Aktiengesellschaft, KPS AG). The auditor was also available to answer any additional questions.

The documents and audit reports drawn up by the auditor were submitted promptly to the members of the Supervisory Board for review. The auditor was present at the balance sheet meeting of the Supervisory Board on 14 January 2022 and reported on the key results of the audit and the auditing focuses. The Supervisory Board took note of the reports provided by the auditor and concurred with the result. The outcome of our own audit (carried out on a random test basis) is in accordance with the result of the audit of the financial statements. The Supervisory Board had no reason to raise any objections in relation to the management and the financial statements submitted.

We concur with the results of the audit of the financial statements. We have no objections on the basis of the final result of our thorough audit and discussion with the auditor of the financial statements. The Supervisory Board approved the annual financial statements of KPS AG and the consolidated financial statements drawn up by the Executive Board including the management reports on 19 January 2022. The annual financial statements of KPS AG are therefore adopted. The Report by the Supervisory Board for the business year 2020/2021 was also approved in the course of these deliberations. The proposal for the appropriation of the profit submitted and explained by the Executive Board was agreed by the Supervisory Board after it had carried out its own audit and taking into account the earnings performance and financial situation of the company. The Supervisory Board considers the proposed dividend to be appropriate.

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

The Supervisory Board

Michael Tsifidaris

Chairman of the Supervisory Board

KPS AND THE CAPITAL MARKET 2021/2021

Price performance in the business year (1 October 2020 to 30 September 2021)

The share of KPS AG posted a fall of 12.3 % overall in a stock-market environment that continued to be defined by the COVID-19 pandemic during the business year 2020/2021. The benchmark indexes DAX and STOXX50 generated a profit of 19.9 % and 26.5 % respectively in the period under review between 1 October 2020 and September 2021.

On 1 October 2020, the KPS share started trading at EUR 5.46. On 30 October 2020, the price of the KPS share fell by 12.3% from EUR 4.96 to EUR 4.35 and therefore reached an absolute low in the period under review, along with the benchmark indexes that also posted a comparatively high loss. The benchmark indexes and the share price of KPS AG recovered by the end of the year. The price of the KPS share fluctuated around the EUR 5 mark at the year-end. On 31 December 2020, the DAX and STOXX50 indexes achieved a value above the opening price at the beginning of the period under review.

On 20 January 2021, the KPS share posted a value of EUR 6.26 and this was the high for the period under review. From the end of January 2021, the share price of KPS AG settled at EUR 5.20 and as the year continued, moved sideways before a downward trend set in from August, contrary to the general market trend, which posted continual growth. The closing price of the share was EUR 4.79 on 30 September 2021.

The average daily trading volume of the KPS share on all German stock exchanges increased during the reporting period to around 17,026 no-par shares (previous year 14,046 shares). On 30 September 2021, the market capitalization of KPS AG was EUR 179.2 million on the basis of 37,412,100 shares in circulation.

Key data for the share of KPS AG

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

Overview of the share (XETRA, Intraday)

Opening price (1 October 2020)	5,46 Euro
High (20 January 2021)	6,26 Euro
Low (30 October 2020)	4,35 Euro
Closing price (30 September 2021)	4,79 Euro
Trading volume (1 October 2020 to 30 September 2021, average trading volume)	17.026
Market capitalization (30 September 2021)	179,2 Mio. Euro

Shareholder structure

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

On 30 September 2021, 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 outstanding shares. Chief Executive Officer of KPS AG, Leonardo Musso, holds 11.0 % of the shares in the company. This means that 46.1 % of the voting shares are held by the Executive Board and the Supervisory Board of KPS AG.

The former Member of the Executive Board Dietmar Müller holds 10.2 % of the shares on the reporting date 30 September 2021. In addition, Allianz has a shareholder of 6.7 % on the reporting date. Accordingly, the free float amounts to 37 % of the shares.

KPS AG is always in close contact with existing and potential investors and is committed to strategically expanding its circle of shareholders.

Annual General Meeting relating to the business year 2019/2020

The ordinary Annual General Meeting of KPS AG on the performance of the business year 2019/2020 was held on 21 May 2021 as a virtual event. The virtual format was selected in order to avoid health risks in connection with the COVID-19 pandemic pursuant to the Act on Measures in Corporate, Cooperative, Association, Foundation and Residential Property Law to Combat the Effects of the COVID-19 Pandemic (Gesetz über Maßnahmen im Gesellschafts-, Genossenschafts-, Vereins-, Stiftungs- und Wohnungseigentumsrecht zur Bekämpfung der Auswirkungen der COVID-19-Pandemie) (Art. 2 of the Act on the Mitigation of the Consequences of the COVID-19 Pandemic in the Areas of Civil, Insolvency and Criminal Procedure, Federal Act Gazette (BGBl.) I 2020, p. 569), last amended by the Act on further Reduction of the Residual Debt Relief Procedure and to Amend Pandemic-related Regulations in Cooperative, Association and Foundation Act and Rental and Leasing Act dated 22 December 2020 (Federal Law Gazette I 2020, p. 3328), ("COVID-19 Act").

In the context of the economic uncertainties caused by the global pandemic, the shareholders approved the proposal by the governance body to consent to a well-balanced dividend policy. EUR 6,360,057.00, or returns EUR 0.17 per share, were paid to shareholders out of the Group earnings of EUR 8.1 million recognized in the Annual Report 2019/2020.

A dividend of EUR 6.36 million corresponds to a payout rate of 78.1 % of Group earnings. A dividend return of 3.1 % was calculated for the last business year based on the opening price of EUR 5.46 on 1 October 2020 taking account of the dividend paid of EUR 0.17 per share. The total return (share price and dividend return) on the KPS share amounted to -9.17 % during the year under review.

Financial calendar

20.01.2022	Publication of the figures in the annual financial statements 2020/2021
10.02.2022	Publication of the figures for the 1st quarter 2021/2022
16.05.2022	Publication of the figures for the half-year 2021/2022
18.05.2022	Ordinary Annual General Meeting in Munich
21.07.2022	Publication of the figures for the third quarter 2021/2022

Analysts' research

The performance of the KPS share was continuously analysed and evaluated during the reporting period by the leading banks M.M.Warburg, Berenberg, Hauck & Aufhäuser, and Quirin Privatbank.

Investor Relations

As a company listed in the Prime Standard of the Frankfurt Stock Exchange, KPS AG complied with the highest standards for publicity and transparency of the Regulated Market under statutory regulations and stock-exchange rules during the business year 2020/2021. The company published disclosures immediately to institutional investors, financial analysts, and private shareholders about current business development and important events for the share price development of the company.

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

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

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

KPS
MANAGEMENT REPORT

2021

1. FUNDAMENTALS OF THE GROUP

1.1 Business model and methodological expertise

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

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

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

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

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

Over a period of many years, KPS has developed the dedicated project management method “KPS Rapid Transformation” for fast and efficient realization of customer projects. KPS has evolved the method and created its “Instant Platforms” product family on that basis.

The KPS “Rapid Transformation Method” is based on the core convictions that in many cases digital transformation projects can be implemented to best effect if a start is made by running a lot of sub-tasks and sub-projects in parallel and simultaneously. This method allows transformation projects to be rolled out while the company continues with its normal operations. Furthermore, standard software packages are used from technology partners of KPS. These are tailored to customers’ requirements and supplied as corresponding process chains. The method differs from standard classic approaches in which individual project steps are scheduled one after the other in accordance with the “waterfall method”. An important advantage for customers is that media interruptions between strategy, process, and implementation can be circumvented and avoided in the software solution. This enables complexity and risks to be reduced and project runtimes to be shortened.

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

KPS is committed to expanding its established robust reference customer base with the evolution of the dedicated KPS Rapid Transformation® Method into the “Instant Transformation” approach based on turnkey platforms. Specific focus sectors for this approach are retail and consumer goods.

1.2 Strategy

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

In the business year 2020/2021, KPS succeeded in enhancing its international profile. By comparison with the year-earlier period, the international contribution to sales amounted to EUR 90.4 million (previous year: EUR 82.9 million), corresponding to 57.2 % (previous year: 49.8 %) of Group sales.

Alongside internationalization, the pillars of innovation and industrialization are top priorities at KPS.

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

The concept of industrialization: KPS has developed turnkey, instantly deployable platforms for various sectors. These platforms empower companies to put their digitalization on the most advanced technological footing at pace. The concept of industrialization is based on the idea that companies within a sector require similar digitalization solutions. The company provides a product with the sector platforms for digital transformation that integrates all processes “end-to-end”. At the same time, the platforms can be tailored to individual customer requirements and adapted to meet specific customer demands.

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

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

1.3 Customer structure

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

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

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

1.4 Consulting and service portfolio

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

A customized approach and business management in real time require a fundamental change in operational and cultural mindset across the entire organization. In the global market for consultancy and service packages, the implementation of digital business models with innovative IT technologies is often crucial for the long-term success of the company.

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

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

1.5 Research and development

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

Since the business year 2015/2016, intensive development work has been carried out on standardizing SAP processing streams. Furthermore, these process chains were developed into standardized Instant Platform products.

In the business year 2020/2021, a total of EUR 1.0 million (previous year: EUR 1.0 million) were posted as own work capitalized. EUR 0.2 million were attributable to trial streams and EUR 0.7 million to own work capitalized in conjunction with the launch of SAP S/4.

The developments capitalized as assets in the business year were only partly completed on the balance sheet date. Amortization amounted to EUR 1.2 million (previous year: EUR 0.9 million).

1.6 Group structure and branch offices

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

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

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

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

1.7 Location and employees

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

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

On 30 September 2021, the KPS Group employed a total workforce of 647 employees (previous year: 619). The number of employees therefore increased in the business year 2020/2021 by 28 employees in comparison with the balance sheet date of 30 September 2020. In Germany, KPS has 459 (previous year 447) employees. This is equivalent to a share of 70.9 % (previous year: 72.2 %) in the Group as a whole.

In the business year 2020/2021, personnel expenses amounted to EUR 69.9 Mio. € million and they were therefore 4.0 % above the value for the previous year (EUR 67.5 Mio. € million).

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

Employees of the KPS Group

	30.09.2021	30.09.2020	Change
Employees by region			
Germany	459	447	12
Spain	75	81	-6
United Kingdom	75	54	21
Denmark	18	18	0
Switzerland	5	4	1
Austria	5	5	0
Sweden	4	3	1
Netherlands	3	3	0
Norway	3	4	-1
Total	647	619	28
Employees by function			
Executive Board	1	1	0
Managing Directions	12	14	-2
Consultants	529	516	13
Administration	101	85	16
Apprentices	4	3	1
Total	647	619	28

Alongside the Managing Directors listed above, the Member of the Executive Board of KPS AG, Mr Leonardo Musso, also holds posts as a Managing Director (in a total of 14 additional companies). From 30 September 2021, 13 persons were therefore employed as Managing Directors in the KPS Group.

1.8 Group controlling system

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

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

2. BUSINESS REPORT OF THE KPS GROUP

2.1 Macroeconomic development

Comments on the sections concerning macroeconomic development:

When the Annual Report was prepared for the period 1 October 2020 to 30 September 2021, reference was made exclusively to business and economic reports which were published up to and including October 2021.

This means that potential impacts, policy measures and increasing uncertainties that might occur as a result of new COVID-19 virus variants (e.g. the Omicron variant identified in November) were not taken into account in the following sections.

Furthermore, the studies published in September and October 2021 are based on the data and situation conditions of the pandemic up to that date. The rising infection figures for COVID-19 recorded in some countries (e.g. Germany) since October 2021 and the associated new policy measures are not taken into account in the estimates relating to the macroeconomic situation for the reporting period 1 October 2020 to 30 September 2021.

2.1.1 Development of the global economy

Economic growth and economic recovery continue to be negatively impacted owing to recurring waves of infection and new COVID-19 mutations

According to the World Economic Outlook (October 2021) published by the International Monetary Fund, the expectations for global growth fell to 5.9% in 2021. The forecast for 2022 continues to be 4.9%.[1]

Owing to the recurring waves of infection, large differences were identified in economic recovery globally depending on the level of progress with vaccinations. According to this study, a high level of vaccination correlates with rapid normalization of the level of production, whereas the economy in countries with restricted access to vaccinations continues to proceed at a sluggish rate.[2] A further retarding factor related to global supply difficulties that damaged industrial production.[3]

The Kiel Institute for the World Economy (IfW) also adjusted its growth forecast for global GDP from 6.7% to 5.9% for the year 2021. The experts in Kiel justified this correction in light of the ongoing, sustained restrictions as a result of the coronavirus pandemic.[4] The IfW Kiel anticipates GDP growth of 5.0% for the year 2022.[5]

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[1] International Monetary Fund, World Economic Outlook, October 2021, https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021 p. XIII

[2] p.2

[3] IfW Kiel, Erholungspfad mit Stolpersteinen, Kieler Konjunkturberichte Weltwirtschaft Herbst 2021, Nr. 81 [Path to Recovery with Stumbling Blocks, Kiel Economic Reports on the Global Economy Autumn 2021, No. 81], https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_81_2021-Q3_Welt_DE.pdf, p.3

[4] IfW Kiel, Erholungspfad mit Stolpersteinen, Kieler Konjunkturberichte Weltwirtschaft Herbst 2021, Nr. 81 [Path to Recovery with Stumbling Blocks, Kiel Economic Reports on the Global Economy Autumn 2021, No. 81], https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_81_2021-Q3_Welt_DE.pdf, p.3

[5] IfW Kiel, Erholungspfad mit Stolpersteinen, Kieler Konjunkturberichte Weltwirtschaft Herbst 2021, Nr. 81 [Path to Recovery with Stumbling Blocks, Kiel Economic Reports on the Global Economy Autumn 2021, No. 81], https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_81_2021-Q3_Welt_DE.pdf, p.12

2.1.2 Development in Europe

Recovery of the economy in the eurozone during the course of 2021

In the year 2021, the economy in the eurozone was projected to move towards the level prior to the onset of the COVID-19 crisis, according to the Kiel Institute for the World Economy (IfW).[6] In the winter half year 2020/2021, the economic output was weakened owing to the second wave of the pandemic. However, the economy in the eurozone underwent a significant recovery in the spring and summer of 2021 owing to progress in the vaccination campaigns and falling case numbers. The experts are therefore anticipating growth in GDP amounting to 5.1% in 2021 and 4.4% in 2022.[7]

While the overall picture is positive, there are significant differences between the individual countries within the eurozone and the GDP attained. Spain with GDP growth of 6.8% still lags furthest behind the pre-crisis status for production, with Portugal (4.6%) and Italy (3.8%) being in a similar position.[8] Meanwhile, Ireland, Finland, Greece and Luxembourg have made a good recovery.[9]

2.1.3 Development in Germany

Economic recovery postponed as a result of supply bottlenecks and restrictions resulting from the COVID-19 pandemic

The recovery in the German economy slowed as a result of the sustained supply bottlenecks and the ongoing restrictions to contain infections[10]

The contact-intensive service industries were particularly affected by the restrictive measures, while supply bottlenecks impacted especially harshly on German industry.[11] The recovery process of the German economy therefore slowed down further. The experts at the Kiel Institute for the World Economy (IfW) expect an increase of 2.6% in GDP for 2021. Growth of 5.1% is anticipated for 2022.[12]

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[6] IfW Kiel, Erholung mit Sand im Getriebe, Kieler Konjunkturberichte Euroraum im Herbst, Nr. 82 [Recovery with sand in the gears, Kiel Economic Reports for the eurozone in autumn, No. 82] https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_82_2021_Q3_Euroraum_DE.pdf, p.3

[7] IfW Kiel, Erholung mit Sand im Getriebe, Kieler Konjunkturberichte Euroraum im Herbst, Nr. 82 [Recovery with sand in the gears, Kiel Economic Reports for the eurozone in autumn, No. 82] https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_82_2021_Q3_Euroraum_DE.pdf, p.3

[8] IfW Kiel, Erholung mit Sand im Getriebe, Kieler Konjunkturberichte Euroraum im Herbst, Nr. 82 [Recovery with sand in the gears, Kiel Economic Reports for the eurozone in autumn, No. 82] https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_82_2021_Q3_Euroraum_DE.pdf, p. 4

[9] IfW Kiel, Erholung mit Sand im Getriebe, Kieler Konjunkturberichte Euroraum im Herbst, Nr. 82 [Recovery with sand in the gears, Kiel Economic Reports for the eurozone in autumn, No. 82] https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_82_2021_Q3_Euroraum_DE.pdf, p. 4

[10] IfW Kiel, Delle im Aufholprozess, Kieler Konjunkturberichte Deutschland im Herbst, Nr. 83 [Dent in the recovery process, Kiel Economic Reports Germany in the autumn, No. 83] https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_83_2021-Q3_Deutschland.pdf, p.3

[11] IfW Kiel, Delle im Aufholprozess, Kieler Konjunkturberichte Deutschland im Herbst, Nr. 83 [Dent in the recovery process, Kiel Economic Reports Germany in the autumn, No. 83] https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_83_2021-Q3_Deutschland.pdf, p.3

[12] IfW Kiel, Delle im Aufholprozess, Kieler Konjunkturberichte Deutschland im Herbst, Nr. 83 [Dent in the recovery process, Kiel Economic Reports Germany in the autumn, No. 83] https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_83_2021-Q3_Deutschland.pdf, p. 4

2.2 Sector-related framework conditions

2.2.1 Demand in the consulting sector remains at a comparatively high level

The consulting sector succeeded in escaping from the uncertainties in the economy as a whole during the first half year of 2021
According to the Business Climate Index for the consulting sector published by the Federal Association of Management Consultants (BDU), demand in the consulting sector during the first half year of 2021 remained at a comparatively high level and succeeded in avoiding the sustained uncertainties prevailing in the economy as a whole.[13] The Business Climate Index therefore increased from 110.2 to 111.4. Sentiment in the sector overall is positive, 60% of the management consultants are above their budget plans in the third quarter of 2021, while every third firm is able to meet its internal scheduled budget.[14]

IT consultancies continued to post a robust business climate score because the demand for consulting firms with IT expertise is continuing at a comparatively high level. They are benefiting from renewed growth in digitalization challenges that have arisen within companies as a result of the crisis.[15]

According to an assessment of KPS, the KPS group of companies has not been able to derive maximum benefit from operating in the consulting sector within the comparatively favourable environment. A high proportion of customers and potential new customers of KPS come from the retail sector. This area has been particularly severely affected by the COVID-19 pandemic and has therefore had to battle with a high level of uncertainties. The demand for large transformation projects was therefore muted in the retail sector particularly in the German market.

2.2.2 Positioning of the KPS Group

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

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

Over recent years, KPS has succeeded in acquiring customers outside the retail sector and expanding in the international arena. In the business year 2020/2021, the foreign share of sales amounted to 57.2 %.

2.3 Business performance

In this section, changes in percent are used in the textual descriptions to present and explain the developments of financial figures. The percentage change is based on the unit KEuros (KEUR, thousand

[13] Geschäftsklimaindex Consulting – Oktober 2021, BDU Pressemitteilung [Business Climate Index Consulting – October 2021, BDU Press Release], https://www.bdu.de/news/consultingkonjunktur-trotzt-dem-abwaertstrend-in-der-gesamtwirtschaft/
[14] Geschäftsklimaindex Consulting – Oktober 2021, BDU Pressemitteilung [Business Climate Index Consulting – October 2021, BDU Press Release], https://www.bdu.de/news/consultingkonjunktur-trotzt-dem-abwaertstrend-in-der-gesamtwirtschaft/
[15] Geschäftsklimaindex Consulting – Oktober 2021, BDU Pressemitteilung [Business Climate Index Consulting – October 2021, BDU Press Release], https://www.bdu.de/news/consultingkonjunktur-trotzt-dem-abwaertstrend-in-der-gesamtwirtschaft/

euros) in order to ensure a uniform presentation of percentage changes in financial figures at different points.

Sales development – continues to be defined by uncertainties resulting from the COVID-19 pandemic
The business year 2020/2021 continued to be impacted negatively by the effects of the sustained global COVID-19 pandemic and the associated uncertainties, policy measures and restrictions to contain the pandemic. Although gradual relaxations and reopenings improved the economic situation at retail customers, a key target group for KPS, the investment sentiment in digitalization projects presents a varied picture. While KPS posted very high demand for e-commerce projects in the business year 2020/2021, the demand for major transformation projects continued to be muted. A number of customers put projects on hold while newly acquired projects were subject to postponements. On 4 May 2021, KPS had to reduce its sales forecast issued for the business year 2020/2021 of achieving sales at the level of the business year 2019/2020 to a corridor of -5 % to -9 % (equivalent to EUR 151.1 – 158. 1 million) by comparison with the business year 2019/2020.

In the business year 2020/2021, sales of the KPS Group fell back by 5.1 % or EUR 8.5 million to EUR 158.0 million (previous year: EUR 166.4 million). The sales generated were therefore situated within the sales forecast (EUR 151.5 – 158.1 million) revised downwards on 4 May 2021

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

Owing to the uncertainties emanating from the impacts of the COVID-19 crisis, KPS worked out individual and flexible solutions together with its customers in order to jointly overcome the impacts of the COVID-19 pandemic.

Sales by segments and regions – strong growth in the United Kingdom and Switzerland
95.1 % (previous year: 92.2 %) were generated in the strategically most important segment Management Consulting and Transformation Consulting. 0.8 % (previous year: 0.7 %) of sales were generated in the segment System Integration, while 4.1 % (previous year: 7.0 %) of sales originate from business with products and licences.

In the business year 2020/2021, KPS posted robust sales development abroad.

Sales generated abroad rose by 9.1 % to EUR 90.4 million (previous year: EUR 82.8 million) in the business year 2020/2021. This meant that the sales contribution from our foreign activities was 57.2 % (previous year: 49.8 %). Strong drivers for the demand were e-commerce and large omnichannel projects.

Over the same period, sales generated in Germany for the business year 2020/2021 fell back by -19.2 % to EUR 67.6 million (previous year: EUR 83.6 million).

The breakdown of revenues in the reporting period by regions yields the following picture for the business year 2020/2021: Germany continued to be the primary sales mainstay with EUR 67.6 million (previous year: 83.6 million) or 42.8 % (previous year: 50.2 %), followed by Scandinavia with a volume of EUR 34.4 million (previous year: EUR 37.6 million) or a share of total sales amounting to 21.8 % (previous year: 22.6 %). In Spain, sales of EUR 10.0 million (previous year: EUR 8.8 million) or 6.3 % (previous year: 5.3 %) were generated. In the BE-NE-LUX region, KPS achieved sales of EUR 12.9 million (previous year: EUR 15.2 million) or 8.2 % (previous year: 9.1 %) of Group sales. In the United Kingdom, sales generated during the reporting period amounted to EUR 19.2 million (previous year: EUR 12.5 million) or 12.2 % (previous year: 7.5 %) and in Switzerland sales were EUR 13.6 million (previous year: EUR 8.3 million) or 8.6 % (previous year: 5.0 %) of the sales of the KPS Group.

Robust business model leads to sound EBITDA and EBIT developments
Although KPS posted a fall in sales of EUR 8.5 million due to the effects of the coronavirus pandemic in the business year 2020/2021, the negative impacts at the level of EBITDA and EBIT were virtually neutralized owing to the robust business model and cost reductions.

Consequently, EBITDA came down slightly from EUR 22.7 million in the business year 2019/2020 to EUR 21.6 million in the business year 2020/2021. The EBITDA margin was 13.7 % and therefore slightly above the year-earlier level (13.6 %). EBITDA generated in the business year 2020/2021 was within the revised corridor of -3 % to -6 % compared with the business year 2019/2020 forecast on 4 May 2021.

The robust business model benefiting from the possibility of adjusting costs to new situations quickly and flexibly generated a comparatively robust EBIT for KPS amounting to EUR 13.4 million (previous year: EUR 14.1 million). Furthermore, KPS achieved an EBIT margin amounting to 8.5 %. The EBIT margin was equivalent to the level of the previous year.

2.4 Results of operations, capital structure and asset situation of the KPS Group

Overview of results of operations, capital structure and asset situation

in MEuros	2021/2020	2020/2019
Group sales	158.0	166.4
EBITDA	21.6	22.7
EBIT	13.4	14.1
Group earnings	8.7	8.1
Earnings per share (in euros)	0.23	0.22
Liquid funds	8.1	20.1
Financial liabilities	21.3	32.6

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

As in the business year 2019/2020, the business year 2020/2021 was defined by the impacts, uncertainties and handling of the global COVID-19 pandemic.

The KPS Group benefited from its strategic alignment for delivering its digitalization and transformation services increasingly by remote means. Furthermore, the business model of KPS proved to be crisis resistant and robust during the course of the pandemic. Current projects continued to run smoothly. In particular, the demand for e-commerce services and omnichannel solutions increased significantly in the business year 2020/2021.

KPS was not able to entirely escape the negative impacts of the coronavirus pandemic. Revenues came down by 5.1 % to EUR 158.0 million.

It proved possible to significantly limit the negative impacts at EBITDA and EBIT level as a result of a flexible cost structure and the capacity of KPS to respond quickly to changed framework conditions. In the business year 2020/2021, EBITDA was EUR 21.6 million and this was only slightly below the value of the previous year in the amount of EUR 22.7 million. EBIT proved to be robust and fell back by 5.0 % to EUR 13.4 Mio. €million.

Overview of the income statement

in KEuros	2020/2021	2019/2020
Revenues	157,979	166,446
Own work capitalized	950	1,412
Other operating income	1,186	961
Cost of materials	-52,583	-58,381
Personnel expenses	-69,941	-67,455
Other operating expenses	-15,945	-20,307
Operating result before depreciation and amortization (EBITDA)	21,647	22,675
Depreciation and amortization (M&A adjusted)	-7,341	-7,276
Operating result (EBIT) adjusted	14,306	15,400
Amortization and depreciation (M&A related)	-898	-1,294
Operating result (EBIT)	13,408	14,106
Financial result	-973	-1,836
Earnings before income taxes*	12,435	12,270
Income tax	-3,708	-4,127
Earnings after income taxes	8,727	8,143

* corresponds to the result from ordinary business activities

Revenues
As already elucidated at the beginning of the section, revenues were reduced in comparison with the previous year by 5.1 % to EUR 158.0 million (previous year: EUR 166.4 million) mainly as a result of the negative effects in connection with negotiating the COVID-19 pandemic. It should be noted here that on 4 May 2021, KPS withdrew the sales forecast for the business year 2020/2021 predicting sales at the level of the previous year published in the Annual Report 2019/2020. However, the sales generated of € 158.0 million were at the upper end of the new forecast published on 4 May 2021, projecting sales generation in a corridor 5 % – 9 % below the level of the previous year 2019/2020.

Own work capitalized
Own work capitalized amounted to EUR 1.0 million (previous year: EUR 1.4 million) over the course of the business year 2020/2021. This essentially relates to intangible assets developed in-house (development costs) for SAP process streams and internally generated software.

Other operating income
As was the case in the previous year, other operating income includes income from operational additional services, such as gains from currency differences, income from releases of provisions, or discounts.

The other operating income increased by 23.5 % compared with the previous year to EUR 1.2 million (previous year: EUR 1.0 million) in the period under review.

Cost of materials
The cost of materials fell back by 9.9 % or EUR 5.8 million to EUR 52.6 million (previous year: EUR 58.4 million) during the period under review. The cost of materials ratio (cost of materials as a ratio of revenues) amounted to 33.3 % (previous year: 35.1 %).

The cost of materials essentially comprises the cost of insourced subcontractor services (service providers, freelancers) and purchased software/hardware. The key driver for the fall in the cost of materials was the reduced deployment of freelancers and service providers.

Personnel expenses
In the reporting period 2020/2021, personnel expenses amounted to EUR 69.9 million and were therefore 3.7% higher by comparison with the year-earlier period (EUR 67.5 million). Drivers for personnel expenses were salary increases and higher utilization of in-house employees, which resulted in slightly higher bonus payments.

At the end of the business year 2020/2021, the KPS Group had a workforce of 647 employees. The number of employees thus increased by 29 compared to the previous year (619).

The personnel expense ratio (personnel expenses in relation to revenues) went up owing to the declining revenues during the period under review and the increased personnel expenses from 40.5 % in the previous year to 44.3 % in the business year 2020/2021.

Other operating expenses
Other operating expenses came down by 21.5 % to EUR 15.9 million (previous year: EUR 20.3 million) compared with the equivalent year-earlier period. They mainly include travel expenses, non-project-related subcontracted services and operating costs.

Depreciation and amortization
The depreciation and amortization (depreciation on tangible assets and M&A-related amortization) decreased slightly from EUR 8.6 million in the equivalent year-earlier period to EUR 8.2 million in the period under review.

This includes the effects from application of IFRS 16 ("Leasing") in the amount of EUR 5.0 million (previous year: EUR 5.0 million). The M&A-related depreciation and amortization amounted to EUR 0.9 million (previous year: EUR 1.3 million).

Financial result
The financial result of the Group amounted to EUR -1.0 million (previous year: EUR -1.8 million). The negative financial result essentially comes from the interest expenses for fair-value valuation and for bank loans. The fall is due to the reduction of financial debts from EUR 32.6 million to EUR 21.3 million.

Income taxes
Taxes on income and earnings amounting to EUR 3.7 million (previous year: EUR 4.1 million) primarily include current expenses for corporate income tax, solidarity surcharge and trade tax.

The tax rate came down from 33.6 % in 2019/2020 to 29.8 % in 2020/2021. The main reason for this was improved use of tax losses carry forward

Earnings after income taxes
The consolidated income from the period under review amounted to EUR 8.7 million (previous year: EUR 8.1 million).

2.4.2 Capital structure

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

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

Development of equity

The share in equity attributable to shareholders of KPS increased by EUR 2.5 million compared with the previous year and amounted to EUR 69.0 million (previous year: EUR 66.3 million) on 30 September 2021.

The equity ratio increased compared to the year-earlier balance sheet date from 38.1 % to 43.0 %. This is primarily due to the increase in equity accompanied by the simultaneous fall in the balance sheet total from EUR 174.0 million on the balance sheet date 30 September 2020 to EUR 160.4 million on 30 September 2021. The key driver for the fall was the reduction of non-current liabilities by 32.0 % to EUR 29.8 million.

Development of liabilities

In the period under review, non-current liabilities decreased from EUR 43.8 million (balance sheet date 30 September 2020) to EUR 29.8 million (balance sheet date 30 September 2021). Key factors for the change in non-current liabilities were the reduction in non-current financial liabilities by EUR 5.3 million to EUR 4.0 million, the fall in non-current leasing liabilities by EUR 2.4 million to EUR 21.7 million and the decrease in non-current other liabilities (primarily earn-out components) by EUR 3.9 million to EUR 0.3 million.

On the balance sheet date 30 September 2021, non-current liabilities are mainly comprised of non-current leasing liabilities (EUR 21.7 million) and non-current financial liabilities (EUR 4.0 million). The non-current liabilities amounted to 18.6 % of the balance sheet total (previous year: 25.2 %) on the balance sheet date.

A decrease in current liabilities by 3.6 % to EUR 61.6 million (previous year: EUR 63.9 million) was posted by comparison with the balance sheet date for the previous year. This amounted to 38.4 % of the balance sheet total (previous year 36.7 %) on the balance sheet date 30 September 2021.

Current financial liabilities decreased by EUR 6.0 million to EUR 17.3 million on the balance sheet date 30 September 2021 compared with the year-earlier balance sheet date 30 September 2020. The change essentially results from the repayment of short-term bank loans.

The other current liabilities fell back by EUR 0.4 million to EUR 15.0 million (previous year: EUR 15.4 million).

Trade liabilities increased slightly by EUR 0.6 million to EUR 7.6 million.

Development of liquidity

Over the past business year, the management of KPS continued to focus on safeguarding liquidity against the background of the high level of uncertainties resulting from the COVID-19 pandemic.

However, KPS had excess liquidity and was in a position to reduce financial liabilities by EUR 11.3 million from EUR 32.6 million on the balance sheet date 30 September 2020 to EUR 21.3 million on the balance sheet date 30 September 2021.

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

On 30 September 2021, the KPS Group had liquid funds (cash and cash equivalents) in the amount of EUR 8.1 million (previous year: EUR 20.1 million).

Cash flow from current business activities amounted to EUR 17.4 million in the current business year compared with EUR 22.0 million in the previous year 2019/2020.

Cash flow from investment activities amounted to EUR -6.2 million (previous year: EUR -14.8 million) and relates to the investments initiated in fixed assets and other purchase price payments for company acquisitions made. In the business year 2020/2021, purchase price payments were due in the amount of EUR 4.7 million (previous year: EUR 11.4 million).

Investments in property, plant and equipment decreased by EUR 1.8 million to EUR 0.1 million and investments in intangible assets fell by EUR 0.2 million to EUR 1.3 million during the period under review.

Cash flow from financial activities amounted to EUR -23.3 million (previous year: EUR 3.1 million) in the past business year.

On the balance sheet date, there were undrawn credit lines of EUR 34.0 million.

2.4.3 Net assets

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

in KEuros	30.09.2021	30.09.2020
Non-current assets	108,845	112,565
Current assets	51,563	61,444
Total assets	160,408	174,009
Shareholders' equity	69,019	66,277
Non-current liabilities	29,827	43,850
Current liabilities	61,562	63,882
Total liabilities	91,389	107,732
Total shareholders' equity and liabilities	160,408	174,009

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

The fall in the balance sheet total by EUR 13.6 million from EUR 174.0 million (balance sheet date 30 September 2020) to EUR 160.4 million (balance sheet date 30 September 2021) is mainly due to a reduction in liquid funds by EUR 12.1 million to EUR 8.1 million. The fall in liquid funds results from the repayment of bank loans.

The long-term capitalized rights-of-use arising from leasing agreements amounted to EUR 26.7 million on the balance sheet date 30 September 2021 (previous year: EUR 29.0 million).

Development of assets

The assets tied up in long-term assets amount to EUR 108.8 million (previous year: EUR 112.6 million) on the balance sheet date for the period under review and were equivalent to 67.8 % of the total assets (previous year: 64.7 %).

These relate to the goodwill from earlier acquisitions of KPS AG amounting to EUR 62.5 million (previous year: EUR 62.5 million). Other intangible assets amounted to EUR 12.6 million (previous year: EUR 14.1 million).

Property, plant and equipment amounted to EUR 2.4 million (previous year: EUR 2.7 million) on the balance sheet date 30 September 2021,.

On the balance sheet date 30 September 2021, investment obligations in the amount of EUR 6.5 million (previous year: EUR 10.9 million) were accounted for conditional purchase price obligations.

Capitalized deferred taxes amount to EUR 4.6 million (previous year: EUR 4.2 million).

On the balance sheet date 30 September 2021, current assets had undergone a reduction by EUR 9.9 million to EUR 51.6 million driven by the reduced liquid funds resulting from repayment of loans. As a consequence, current assets were equivalent to 32.1 % of assets on the balance sheet date 30 September 2021.

Trade receivables increased by EUR 4.4 million to EUR 34.5 million on the balance sheet date 30 September 2021.

2.4.4 Appropriation of profits

Earnings after income taxes amounted to EUR 8.7 million (previous year: EUR 8.1 million) during the reporting period. The Executive Board and the Supervisory Board propose a dividend in the amount of EUR 0.19 for the reporting period. This would correspond to an increase compared with the year-earlier period by EUR 0.02 (dividend 2019/2020: EUR 0.17). It would be equivalent to a total payout of EUR 7.1 million and a payout ratio of 81.5 %.

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

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

2.5.1 Results of operations

In the business year 2020/2021, the business activity of KPS AG comprised the functions of a holding company, as was the case in the previous year. Within this framework, management, monitoring and administrative activities, as well as controlling and finance were carried out for the operating units of the KPS Group. As in the previous year, the costs incurred at KPS AG were allocated to the subsidiary companies by way of a Group allocation with a risk and profit surcharge of 15 %.

During the year under review, personnel expenses amount to KEUR 5,188 (previous year: KEUR 4,533). In the business year 2020/2021, an average of 68 (previous year: 66) employees were employed at KPS AG.

The scheduled amortization and depreciation on intangible fixed assets and on property, plant and equipment in the year under review amount to KEUR 452 (previous year: KEUR 431).

Other operating expenses increased to KEUR 631 (previous year: KEUR 220) compared with the previous year. These primarily include administrative expenses such as rental and ancillary costs, and expenses for M&A consulting services.

Investment income in the amount of KEUR 7,370 (previous year: KEUR 11,680) is based on profit distributions from subsidiary companies.

The income arising from appropriate of profit in the amount of KEUR 1,588 relates to KPS digital GmbH and KPS Business Transformation GmbH.

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

The corporate income tax and trade tax expense of KEUR 46 has been increased to KEUR 378 .

KPS AG posted an annual net profit of KEUR 10,412 for the business year 2020/2021 compared with an annual net loss of KEUR KEUR -8,272 for the business year 2019/2020.

2.5.2 Financial position

On 30 September 2021, KPS AG had liquid funds in the amount of KEUR 2,518 (previous year: KEUR 6,506). By comparison with 30 September 2020, net liquidity went down by KEUR 3,988.

At the end of the year under review, liabilities to banks amounted to KEUR 21,300 (previous year: KEUR 32,600 . These result on the one hand from taking out a long-term loan with a total term of five years and a total amount of KEUR 20,000 to finance company acquisitions amounting to KEUR 4,800 (previous year: KEUR 8,600) and from taking out a long-term loan with a total term of three years and a total amount of KEUR 6,000 to finance company acquisitions amounting to KEUR 4,500 (previous year:

KEUR 6,000). There are also short-term money-market loans for purposes of safeguarding liquidity in the amount of KEUR 12,000 (previous year: KEUR 18,000).

In the context of several company acquisitions, KPS AG took out a long-term loan in the amount of EUR 20 million. An interest-rate swap in the amount of EUR 10 million was concluded to hedge the interest-rate risk, which amounts to EUR 2.4 million on the balance sheet date. In view of the term of the interest swap over several years, the fair value depends on a number of factors including the future development of EURIBOR interest rates. The valuation is carried out on the basis of market data on the valuation reference date and using generally acknowledged valuation models. The interest risk prevailing on the valuation reference date in the amount of KEUR 21 (previous year: KEUR 57) was recorded as other liability.

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

	2020/2021	2019/2020
	in KEuros	in KEuros
Cash funds at the beginning of the period	6,506	3,599
Current business operations	19,603	5,518
Investment activities	-5,931	-11,446
Financial activities	-17,660	8,835
Cash funds at the end of the period	2,518	6,506

2.5.3 Asset situation

The assets side of the balance sheet of KPS AG is essentially defined by the valuation of the company's shareholdings in subsidiary companies in the amount of KEUR 93,151 (previous year: KEUR 91,090) and receivables from affiliated companies in the amount of KEUR 11,432 (previous year: KEUR 16,765).

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

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

Other assets increased from KEUR 811 in the previous year to KEUR 955 . This is primarily due to payments on account, receivables from the Tax Office relating to tax rebate claims and debit balances in accounts payable.

The shareholders equity of the company increased by KEUR 3,591 from KEUR 66,124 in the previous year to KEUR 70,177 .

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

Net profit increased by KEUR 3,591 from KEUR 16,172 to KEUR 20,224 by comparison with the balance sheet date.

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

Tax provisions amount to KEUR 26 (previous year: KEUR 80) and essentially include the current tax expense in 2020/2021 for corporate income tax and trade tax.

Other provisions amount to KEUR 2,744 (previous year: KEUR 4,550) and are essentially based on obligations arising from the area of personnel.

Liabilities to affiliated companies increased by KEUR 4,633 from KEUR 7,310 to KEUR 11,943 . They are essentially the balance of the cash pooling established in the KPS Group and cost allocations in the Group. Furthermore, the item also includes Group loans in the amount of KEUR 1,627 (previous year: KEUR 0) with a term of less than one year.

Liabilities to banks amount to KEUR 21,300 (previous year: KEUR 32,600) and result firstly from taking out a long-term loan with a total term of five years and a total amount of KEUR 20,000 to finance company acquisitions amounting to KEUR 4,800 (previous year: 8,600) and from taking out a long-term loan with a total term of three years and a total amount of KEUR 6,000 to finance company acquisitions in the amount of KEUR 4,500 (KEUR 6,000). There are also short-term money-market loans for purposes of safeguarding liquidity in the amount of KEUR 12,000 (previous year: KEUR 18,000).

In the context of several company acquisitions, KPS AG took out a long-term loan in the amount of EUR 20 million. An interest-rate swap in the amount of EUR 10 million was concluded to hedge the interest-rate risk, which amounts to KEUR 2.4 million on the balance sheet date. In view of the term of the interest swap over several years, the fair value depends on a number of factors including the future development of EURIBOR interest rates. The valuation is carried out on the basis of market data on the valuation reference date and using generally acknowledged valuation models. The interest risk prevailing on the valuation reference date in the amount of KEUR 21 (previous year: KEUR 57) was recorded as other liability.

Other liabilities decreased by KEUR 2,346 to KEUR 4,931 (previous year: KEUR 7,277). These essentially include the purchase price obligations due in the business year 2020/2021 for the acquisition of shareholdings in KPS Digital Limited, KPS Business and Digital Transformation S.L.U. and Infront Consulting & Management GmbH in the amount of KEUR 4,482 (previous year: KEUR 7,044). Wage tax liabilities increased by KEUR 9.

2.5.4 Appropriation of earnings

Earnings after income taxes amounted to KEUR 10,412 (previous year: KEUR -8,272) in the reporting period and therefore increased by EUR 18.3 million compared with the previous year. The proposed dividend amounts to € 7,108 thousand (previous year: € 6,360 thousand) or € 0.19 (previous year: € 0.17) per share. This dividend proposal takes into account the profitability and the reliable dividend continuity of KPS AG.

2.6 Financial and non-financial performance indicators

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

2.6.1 Calculation of EBITDA and EBIT

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

In the business year 2020/2021, EBIT of the KPS Group amounted to EUR 13.4 million and is therefore slightly below the level for the previous year (EUR 14.1 million).

EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization) is calculated by supplementing EBIT with amortization and depreciation on property, plant and equipment, and intangible assets, and

M&A-related depreciation and amortization. In the business year 2020/2021, depreciation and amortization on property, plant and equipment, and intangible assets amounted to EUR 7.3 million and M&A-related depreciation and amortization was EUR 0.9 million. Accordingly, EBITDA for the reporting period amounts to EUR 21.6 million, which represents a fall of 4.5 % compared with the comparable year-earlier period 2019/2020.

2.6.2 Calculation of sales

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

In the reporting period 2020/2021, the KPS Group generated sales in the amount of EUR 158.0 million. Compared with the year-earlier period 2019/2020, revenues fell by 5.1 %. The drop is primarily due to the effects of the COVID-19 pandemic and the associated high levels of uncertainty, economic turbulence, and lockdown measures.

In the reporting period 2020/2021, the KPS Group generated sales in the amount of EUR 150.3 million or 95.1 % of Group revenues with management and transformation consulting (previous year: EUR 153.5 million).

The proportion of foreign sales was 57.2 % (previous year: 49.8 %) in the period under review.

2.6.3 Personnel

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

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

On 30 September 2021, the KPS Group employed a total of 647 employees (previous year: 619). This means that the number of employees increased by 28 in the business year compared to the previous year.

In Germany, we employed a workforce of 459 employees (previous year: 447). This is equivalent to a share of 70.9 % (previous year: 72.2 %) in the Group overall. The average number of employees in the year under review amounted to 614 (previous year: 617) not including the Executive Board and Managing Directors.

Personnel expenses amounted to EUR 69.9 million in the business year 2020/2021 and were therefore EUR 2.4 million above the value of the equivalent year-earlier period (EUR 67.5 million).

2.7 Alternative performance indicators

EBIT as an indicator of the overall operating and non-operating result for the company went down by EUR 0.7 million euros from EUR 14.1 million in the previous year to EUR 13.4 million or by or by 5.0 % to EUR 13.4 million in the business year 2020/2021.

For purposes of increasing transparency, an adjusted EBIT (operating result adjusted) is recognized alongside EBIT, which presents the operating result (EBIT) before “M&A-related depreciation and amortization” and amounted to EUR 14.3 million (previous year EUR 15.4 million) in the year under review.

Based on sales of EUR 158.0 million (previous year: EUR 166.4 million), the EBIT margin remains unchanged at 8.5 % by comparison with the equivalent year-earlier period.

The decline in turnover in the reporting period was partially compensated for by cost-cutting measures, especially in the areas of sourcing subcontracted services and travel expenses. This significantly cushioned the negative effects on EBIT.

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

As in the previous business year 2019/2020, the global COVID-19 pandemic continued to exert a negative impact on the business situation of the KPS Group during the reporting period 2020/2021.

Pandemic-related economic turbulence, lockdown measures and disruption of global supply chains led to high levels of sustained uncertainties with some customers and potential new customers of KPS. Accordingly, a number of individual projects were set aside and the start of newly acquired projects was postponed in some cases.

Consequently, the KPS Group was unable to entirely escape the pandemic-related turbulence. KPS was unable to achieve its original targets and forecasts for the business year, and withdrew the forecast for the business year 2020/2021 on 4 May 2021. Originally, KPS expected sales at the level of the equivalent year-earlier period and anticipated a slight increase in EBITDA by comparison with the previous year.

On 4 May 2021, the forecast was adjusted as follows: KPS expected to be able to achieve sales of 5 % – 9 % and EBITDA of 3 % – 6 % below the relevant values of the year-earlier period. The results achieved for the reporting year 2020/2021 were within the new corridors as published.

The business situation in the reporting year 2020/2021 presented a nuanced picture. Accordingly, KPS posted exceptionally good demand for e-commerce and omnichannel projects. Furthermore, the order situation outside Germany was robust. Conversely, retailers in Germany in particular were reluctant to undertake digital transformation projects.

However, the business model proved its worth over the course of the coronavirus pandemic.

Although KPS recorded a fall in sales of -5.1 % or EUR 8.5 million over the reporting period, the impacts on EBITDA and EBIT were significantly cushioned by flexible cost structures and a rapid capability to adapt to new situations. By comparison with the previous year, EBITDA came down by EUR 1.0 million to EUR 21.6 million and EBIT by EUR 0.7 million to EUR 13.4 million. The EBIT margin at 8.5 % was at the value of the previous year (8.5 %).

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

An equity ratio of 43.0 % (previous year: 38.0 %), low net financial indebtedness in the amount of EUR 13.2 million (previous year: 12.5 million), and liquid funds in the amount of EUR 8.1 million mean that KPS remains on a solid financial footing. The excellent financial base and the investments initiated in the development services have created the enablers for an ongoing successful future.

3. OPPORTUNITIES AND RISK REPORT

The opportunities and risks, which are described in the sections below, are applicable for all reported segments of the KPS Group.

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

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

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

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

A significant risk is entailed for KPS by the impacts of the COVID-19 pandemic and in particular the associated high levels of uncertainty (caused by lockdowns and social-distancing measures) in the case of individual customers from the retail sector. As a specialist in digital transformation in retail, KPS is significantly affected indirectly by the current uncertainties about the further course of the pandemic. On the one hand, the pandemic is likely to accelerate the digital transformation of companies in the retail sector. However, the high levels of uncertainty and the renewed serious deterioration of the pandemic as a result of the so-called fourth wave have an effect on the readiness of existing and potential new customers to invest so that current projects could be interrupted and the start of potential new projects could be postponed. A key risk management target of KPS is to promptly identify project risks in conjunction with the uncertainties about the ongoing course of the pandemic and to counteract them.

3.2 Individual opportunities and risks

3.2.1 Macroeconomic opportunities and risks

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

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

Overall, the outbreak of the coronavirus pandemic increased the uncertainties and hence the macroeconomic risks for KPS.

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

Opportunities and risks arising from the exit of the United Kingdom from the European Union
KPS has a branch office in the United Kingdom and the Group is selling its services in the United Kingdom. These are not subject to customs duties, and import licences are not required. KPS does not therefore perceive any significant negative impacts on the business activities of KPS from the exit of the United Kingdom from the European Union. The comparatively good sales development in the United Kingdom during the period under review confirms this assessment.

3.2.2 Sector-specific opportunities and risks

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

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

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

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

Furthermore, KPS has demonstrated its superlative expertise in digital transformation through leading rankings with several sector-relevant awards and through comprehensive partnerships with SAP.

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

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

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

Since the COVID-19 pandemic is an event which has already materialized and the ongoing course of the COVID-19 pandemic is unpredictable, the sector-specific COVID-19 risks are classified as medium to high.

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

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

Negative sales effects as a result of the coronavirus pandemic of at least EUR 23.0 million
Bricks-and-mortar retail in Germany was especially strongly impacted by policy measures introduced to contain the COVID-19 pandemic in Germany. Owing to the resulting economic uncertainties, individual customers have been asking for project breaks and potential new customers have requested project postponements.

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

Medium-term opportunities and risks arising from the coronavirus pandemic

KPS assumes that at the latest after the COVID-19 pandemic has been overcome, there is likely to be a strong increase in demand for the services of KPS. KPS believes that there are a number of reasons for this.

Firstly, retail companies with a strong bricks-and-mortar alignment have postponed investments in their digital IT landscapes during the years 2020 and 2021 owing to the coronavirus crisis. KPS expects that this backlog of investment will gradually be released and that there is likely to be a boom in demand for the Instant Platforms of KPS.

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

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

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

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

3.2.4 Opportunities and risks arising from order processing

KPS deploys leading-edge technology based on a proven track record with its Instant Platform product family in the process of rolling out projects. The consultants from KPS combine the traditional world of strategy and process consulting in this approach with implementation consulting. The objective is to draw on instantly deployable platforms in order to achieve optimum transformation processes by exploiting potential synergies in the consulting segments. The risk of introducing new digital processes and structures is thereby significantly reduced. KPS perceives significant opportunities for creating a distinct profit from competitors by the way in which orders are processed.

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

Risks arising from fixed-price agreements present a medium risk for KPS. Potential cost overshoots can rapidly have significant financial consequences for KPS. For this reason, KPS has so far only entered into fixed-price agreements in a few instances.

The complexity of the projects and specifics in the sectors where the clients of KPS are operating can result in technical and/or qualitative issues, challenges, and problems that cannot be resolved by the team of project employees assigned to the project. Risks arising from technical and/or qualitative issues, challenges and problems are however classified as low. In the past, situations of this type could be regularly resolved within a period of time deemed reasonable for the company.

Since KPS is increasingly being confronted with new, highly complex issues and challenges, situations are conceivable in which any highly complex challenges and problems arising are not resolvable or can only be resolved by expending a great deal of time with a high level of financial input.

Risks from temporary burdens arising from contract terminations are classified as medium. The serving of notices of termination on a customer contract or the contract not being extended after the initial prototype phase owing to failures by employees may indeed occur but these tended to be low in the past. However, if this risk is realized, temporary negative impacts on earnings are to be expected, particularly in the case of major projects, since the employees assigned to the project will often not be deployable on other projects at least in the short term.

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

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

3.2.5 Opportunities and risks as a general contractor for large companies

As a result of the current size of the company with annual sales of presently EUR 158.0 million and a consulting team of 647 employees on 30 September 2021, KPS is well positioned to handle projects for large companies operating in the international arena and gaining an even higher profile with large companies.

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

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

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

A number of clients of the KPS Group come from the area of bricks-and-mortar retail. As a result of the COVID-19 pandemic and the associated impacts, retailers in Germany apart from the area of DIY stores, drugstores, and food were subject to severe negative impacts. It has not yet been possible to completely overcome the negative effects. The uncertainties continue to be high, particularly if the infection numbers continue increasing. KPS therefore temporarily classifies the risk as high on account of the COVID-19-related risk.

3.2.6 Personnel risk

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

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

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

3.2.7 Opportunities and risks in investment and finance

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

KPS assesses the liquidity and interest-rate risks as limited on account of the robust capital and financing structure.

The business model of KPS entails managing relatively few but very complex projects at the same time. The objective of finance and risk management is to safeguard the success of the company against any form of financial risk. The company pursues a conservative risk policy in the course of managing financial positions.

The loss of a client can exert a very negative impact on the liquidity situation of KPS. There is a credit risk/default risk for KPS insofar as customers, or other debtors are unable to meet their financial obligations. The creditworthiness of our customers or business partners involving large sales volumes is subject to regular review. Accounts receivable are continuously monitored. Project managers and the executive management receive a monthly overview of overdue items for each customer. This enables KPS to respond promptly to any change in a customer’s payment pattern. If default and creditworthiness risks are identified in relation to financial assets, write-down adjustments are made as necessary. In order to minimize default risks, the company has an adequate system of receivables management. As a result of the COVID-19 pandemic and the associated uncertainties and risks, KPS has continued to strengthen its monitoring of customers' payment behaviour and the management of liquidity. The additional risk arising from the COVID-19 pandemic relating to the payment behaviour of individual customers is classified as a medium risk.

3.2.8 Liquidity risk

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

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

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

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

KPS classifies the liquidity risk as low.

3.2.9 Tax opportunities and risks

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

3.2.10 Technological opportunities and risks

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

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

The technological progress in digitalization demands continual adaptation of processes and structures. The platforms of KPS have been designed so that adjustments can be carried out rapidly. KPS perceives significant opportunities for acquiring new digitalization projects on the back of its innovative strength.

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

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

Owing to the company's holding function, the asset situation, financial position, and results of operations of KPS AG depend on the economic performance of the subsidiary companies. On the basis of the robust financial position and the results of operations of the KPS Group, the risks of KPS AG arising from its holding function are perceived as low.

3.3 Overall assessment of opportunities and risks

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

The partially negative impacts of the coronavirus, for example in terms of investment behaviour by existing and potential new customers, can be overcome. Over the medium term, these effects are likely to accelerate digitalization and therefore the demand for transformation projects.

KPS regards the risks and the uncertainties arising from the COVID-19 pandemic as manageable. The management of risk is supported by the early risk identification system with the aim of identifying existing risks at an early stage and instituting appropriate countermeasures. The early risk identification system was subject to a mandatory review in the course of the audit of the financial statements. In summary, the risk analysis yields a satisfactory result on the basis of the information known to us today. The risk analysis indicates that at the current time risks are not identifiable which could have the potential for loss and present a hazard to the continuing existence of the KPS Group and pose a risk for the asset situation, financial position, and results of operations.

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

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

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

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

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

4. OUTLOOK REPORT

4.1 Macroeconomic forecast

Trajectory of recovery expected for the global economy in 2022
After the difficult years of 2020 and 2021, experts from the leading German economic research institutes predict that the global economy is currently on a trajectory towards recovery.[16]

However, 2021 was a year that continued to be burdened by global supply bottlenecks and infection waves.[17] The economic institutes therefore reduced their forecasts relating to growth in global production for the year 2021 to 5.7% (from 6.3%).

Conversely, the forecast for the upcoming year 2022 was increased to 4.2%. A significant increase is also anticipated for 2023 on the back of the economic recovery and the flattening of waves of infection.[18]

European economies with expected catch-up effect
Economists believe that the European economies are approaching the production level prior to the pandemic.[19] The economic output during the winter half year of 2020/21 fell back slightly, but it returned to strong growth of 2.2% in spring of 2021. In the second quarter, economic output was therefore only 2.5% below the pre-crisis level in 2019.[20]

The unemployment rate is also continuing to fall steeply towards the pre-crisis level and the rate in the eurozone in August was 7.5%.[21] A fall to 7.3% is forecast for 2022 and to 6.9% for 2023.[22]

Germany: Upswing and acceleration for GDP growth expected from the second quarter of 2022

The economic situation in Germany continues to be defined by the impacts of the coronavirus pandemic.[23] Leading economic research institutes are only expecting an end to these impairments of the German economy from the second quarter of 2022.[24] The institutes reduced their forecast for the growth rate of

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[16] Krise wird allmählich überwunden – Handeln an geringerem Wachstum ausrichten, Gemeinschaftsdiagnose 2-2021 [Crisis is gradually being overcome – Align action with lower growth, joint diagnosis 2-2021], Project Group Joint Diagnosis, October 2021, https://gemeinschaftsdiagnose.de/wp-content/uploads/2021/10/GD_H21_Langfassung_online.pdf, p.13

[17] Krise wird allmählich überwunden – Handeln an geringerem Wachstum ausrichten, Gemeinschaftsdiagnose 2-2021 [Crisis is gradually being overcome – Align action with lower growth, joint diagnosis 2-2021], Project Group Joint Diagnosis, October 2021, https://gemeinschaftsdiagnose.de/wp-content/uploads/2021/10/GD_H21_Langfassung_online.pdf, p.13

[18] Krise wird allmählich überwunden – Handeln an geringerem Wachstum ausrichten, Gemeinschaftsdiagnose 2-2021 [Crisis is gradually being overcome – Align action with lower growth, joint diagnosis 2-2021], Project Group Joint Diagnosis, October 2021, https://gemeinschaftsdiagnose.de/wp-content/uploads/2021/10/GD_H21_Langfassung_online.pdf, p.17.

[19] Krise wird allmählich überwunden – Handeln an geringerem Wachstum ausrichten, Gemeinschaftsdiagnose 2-2021 [Crisis is gradually being overcome – Align action with lower growth, joint diagnosis 2-2021], Project Group Joint Diagnosis, October 2021, https://gemeinschaftsdiagnose.de/wp-content/uploads/2021/10/GD_H21_Langfassung_online.pdf, p. 26

[20] Krise wird allmählich überwunden – Handeln an geringerem Wachstum ausrichten, Gemeinschaftsdiagnose 2-2021 [Crisis is gradually being overcome – Align action with lower growth, joint diagnosis 2-2021], Project Group Joint Diagnosis, October 2021, https://gemeinschaftsdiagnose.de/wp-content/uploads/2021/10/GD_H21_Langfassung_online.pdf, p. 26.

[21] Krise wird allmählich überwunden – Handeln an geringerem Wachstum ausrichten, Gemeinschaftsdiagnose 2-2021 [Crisis is gradually being overcome – Align action with lower growth, joint diagnosis 2-2021], Project Group Joint Diagnosis, October 2021, https://gemeinschaftsdiagnose.de/wp-content/uploads/2021/10/GD_H21_Langfassung_online.pdf, p. 27

[22] Krise wird allmählich überwunden – Handeln an geringerem Wachstum ausrichten, Gemeinschaftsdiagnose 2-2021 [Crisis is gradually being overcome – Align action with lower growth, joint diagnosis 2-2021], Project Group Joint Diagnosis, October 2021, https://gemeinschaftsdiagnose.de/wp-content/uploads/2021/10/GD_H21_Langfassung_online.pdf, p. 34

[23] Krise wird allmählich überwunden – Handeln an geringerem Wachstum ausrichten, Gemeinschaftsdiagnose 2-2021 [Crisis is gradually being overcome – Align action with lower growth, joint diagnosis 2-2021], Project Group Joint Diagnosis, October 2021, https://gemeinschaftsdiagnose.de/wp-content/uploads/2021/10/GD_H21_Langfassung_online.pdf, p.3.

[24] Krise wird allmählich überwunden – Handeln an geringerem Wachstum ausrichten, Gemeinschaftsdiagnose 2-2021 [Crisis is gradually being overcome – Align action with lower growth, joint diagnosis 2-2021], Project Group Joint Diagnosis, October 2021, https://gemeinschaftsdiagnose.de/wp-content/uploads/2021/10/GD_H21_Langfassung_online.pdf, p.10

the gross domestic product for Germany in 2021 from 3.7% in the spring to 2.4%. Increased growth of 4.8% is now projected for 2022, while in spring this forecast was still at 3.9%.[25]

After high infection figures in the winter months of 2020/21, these numbers declined in the spring months of 2021 in the wake of the increasing immunization of society. This led to a rapid recovery of the German economy. There continue to be supply bottlenecks for intermediate products in manufacturing so that production is restricted in a number of sectors in spite of full order books.[26] An additional economic upswing is expected for the upcoming quarters, which will make up for the losses in the pandemic.[27]

The number of people in employment underwent a significant collapse in the second quarter of 2020, but the number has been rising since then, by around 240,000 people in the third quarter of 2021. The unemployment rate is expected to fall to 5.7% in 2021 and then fall to 5.3% in 2022 as the recovery in the economy takes hold.[28]

4.2 Sector-specific forecast

Significant sales growth expected in the IT sector

According to the Lünendonk Study in 2021 on market development in IT consulting and IT service in Germany, the IT service market has grown in Germany. In the study, the experts expect average sales growth to be 11.2% in 2021 and 11.5% in 2022.[29] Overall, every second management consulting firm is expected to see a further improvement in business development, while 47% are predicting a flatlining trend for business developments.[30]

The Lünendonk Study indicates that the coronavirus pandemic has acted as a driver for transformation projects and it encourages companies to invest in the future. A large number of companies are therefore planning to continue to make additional investments in IT over the coming years.[31]

4.3 Expected business development of the KPS Group and KPS AG

The assessment for the business year 2021/2022 is based on the development of past reporting periods, the results of previous months, the consulting portfolio comprising portfolio projects, and newly acquired projects.

The persistent COVID-19 pandemic and the increasing infection figures in many countries at the time when the report was being prepared, along with the appearance of new virus variants (e.g. Omicron) are

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[25] Krise wird allmählich überwunden – Handeln an geringerem Wachstum ausrichten, Gemeinschaftsdiagnose 2-2021 [Crisis is gradually being overcome – Align action with lower growth, joint diagnosis 2-2021], Project Group Joint Diagnosis, October 2021, https://gemeinschaftsdiagnose.de/wp-content/uploads/2021/10/GD_H21_Langfassung_online.pdf, p.11

[26] Krise wird allmählich überwunden – Handeln an geringerem Wachstum ausrichten, Gemeinschaftsdiagnose 2-2021 [Crisis is gradually being overcome – Align action with lower growth, joint diagnosis 2-2021], Project Group Joint Diagnosis, October 2021, https://gemeinschaftsdiagnose.de/wp-content/uploads/2021/10/GD_H21_Langfassung_online.pdf, p.3.

[27] Krise wird allmählich überwunden – Handeln an geringerem Wachstum ausrichten, Gemeinschaftsdiagnose 2-2021 [Crisis is gradually being overcome – Align action with lower growth, joint diagnosis 2-2021], Project Group Joint Diagnosis, October 2021, https://gemeinschaftsdiagnose.de/wp-content/uploads/2021/10/GD_H21_Langfassung_online.pdf, p.11

[28] Krise wird allmählich überwunden – Handeln an geringerem Wachstum ausrichten, Gemeinschaftsdiagnose 2-2021 [Crisis is gradually being overcome – Align action with lower growth, joint diagnosis 2-2021], Project Group Joint Diagnosis, October 2021, https://gemeinschaftsdiagnose.de/wp-content/uploads/2021/10/GD_H21_Langfassung_online.pdf, p.11

[29] Lünendonk Study 2021, Der Markt für IT-Beratung und IT-Service in Deutschland 2021 [The market for IT consulting and IT service in Germany in 2021], file:///C:/Users/simonsen/AppData/Local/Temp/Luenendonk-Studie-2021-Der-Markt-fuer-IT-Beratung-und-IT-Service-in-Deutschland-2.pdf, p.5

[30] BDU Press Release, Consultingkonjunktur trotzt dem Abwärtstrend in der Gesamtwirtschaft [Consulting economy bucks downward trend in the economy overall], https://www.bdu.de/news/consultingkonjunktur-trotzt-dem-abwaertstrend-in-der-gesamtwirtschaft/

[31] Lünendonk Study 2021, Der Markt für IT-Beratung und IT-Service in Deutschland 2021 [The market for IT consulting and IT service in Germany in 2021], file:///C:/Users/simonsen/AppData/Local/Temp/Luenendonk-Studie-2021-Der-Markt-fuer-IT-Beratung-und-IT-Service-in-Deutschland-2.pdf, p.5

leading to further uncertainties in the assessment of potential development in the business year 2021/2022.

When this report was prepared, the Executive Board and the Management of KPS AG continued to be unable to assess reliably how the persistent COVID-19 pandemic will affect the economic position of existing and potential customers of the KPS Group and their demand behaviour. Hence, the resulting effects on the development of sales and earnings in the business year 2021/2022 are difficult to quantify and burdened by high levels of uncertainty.

The KPS Group is well positioned to address the challenges of the future and take advantage of the opportunities presented by the digitalization of business processes. In particular, additional opportunities should emerge from the Instant Platform families developed by KPS. KPS has a very robust financial structure and sound results of operations.

In the business year 2021/2022, the Executive Board and Management are focussing very strategically on marketing and the newly developed Instant Platform families.

On the basis of the information and data available when this report was prepared, the Executive Board of KPS AG estimates that it will be able to increase revenues in the middle to high single-digit percentage range in the business year 2021/2022 in accordance with the business year 2019/2020. Furthermore, it is planned to achieve EBITDA at least on the level of the business year 2020/2021. This planning is based on being able to carry out the scheduled projects.

The forecast is based on facts and projections about future business and economic developments known to us today. Changes that are unforeseeable from today's perspective in the anticipated economic framework conditions, in particular effects arising from the continuing trajectory of the COVID-19 pandemic in ongoing projects, in the current order backlog and in other external and internal factors could exert significant negative effects on our sales and earnings expectations so that assessments made in this report may not be achieved.

5. COMPENSATION REPORT

5.1 Compensation payments to the Executive Board

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

The fixed and variable compensation paid to the sole Member of the Executive Board for his activity in the business year 2020/2021 amounted to a total of KEUR 578 (previous year: KEUR 420), with the variable share amounting to 37.4 % (previous year: 29.0 %) of the total payments.

The company has concluded an accident insurance and a D&O insurance policy for the Member of the Executive Board. The Member of the Executive Board is also entitled to a car for business and private use. This entitlement is compensated by a flat-rate vehicle payment. Furthermore, the contributions for statutory health insurance made by the Member of the Executive Board are reimbursed to him and he is entitled to payment of the usual employer's share for statutory pension insurance that is applicable when employing an employee. The expenses for the flat-rate vehicle payment and the contributions for statutory health insurance amounted to KEUR 62 (previous year: KEUR 63) in the business year 2020/2021.

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 KEUR 15 in addition to reimbursement of their expenses after the business year has come to an end. The Chairman of the Supervisory Board receives KEUR 25. The compensation is payable after the Annual General Meeting.

In the business year 2020/2021, the compensation for the Supervisory Board amounted to a total of KEUR 55 (previous year: KEUR 55). In the business year 2020/2021, the compensation payments for the Chairman of the Supervisory Board, Mr Michael Tsifidaris, amounted to KEUR 25 (previous year: KEUR 25), for Mr Uwe Grünewald KEUR 15 (previous year: KEUR 15) and for Mr Hans-Werner Hartmann KEUR 15 (previous year: KEUR 15).

6. DISCLOSURES RELEVANT TO TAKEOVERS PURSUANT TO ARTICLE 315 SECTION 4 GERMAN COMMERCIAL CODE (HGB) AND THE EXPLANATORY REPORT FOR THE BUSINESS YEAR 2020/2021

6.1 Composition of the subscribed capital

On 30 September 2021, the capital stock of the company amounted to 37,412,100 euros. It is divided up into 37,412,100 no-par value ordinary shares each representing a nominal value of 1 euro in the capital stock. All shares entail the same rights and obligations.

During the course of the business year, none of the company's own shares (treasury shares) were purchased or sold. On 30 September 2021, the company did not hold any treasury shares (previous year: 0).

6.2 Restrictions on voting rights and transfers

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

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

6.3 Capital 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 2021:

	shares	in %
Michael Tsifidaris	9,080,050	24.3%
Leonardo Musso	4,103,084	11.0%
Uwe Grünewald	4,052,390	10.8%
Dietmar Müller	3,813,359	10.2%

In the business year 2020/2021, KPS AG did not receive any further notifications relating to direct or indirect shareholdings which exceed 10 % of the voting rights. Additionally, the company has not therefore received any notification apart from the above list providing information about a shareholding above 10 % of the voting rights.

6.4 Special rights which confer rights of control

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

6.5 Control of voting rights through employee shareholders

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

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

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

Amendments to the statutes of the company require a resolution of the Annual General Meeting pursuant to Article 179 Section 1 Stock Corporation Act (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 Act (AktG).

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

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

The authorization for creation of authorized capital 2020/1 approved by the Annual General Meeting on 25 September 2020 was cancelled by resolution of the ordinary Annual General Meeting held on 21 May 2021. Instead, authorized capital 2021/1 was created in the amount of 18,706,050.00 euros.

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

There was no change in the authorized capital 2021/I during the business year 2020/2021.

The resolution adopted by the Annual General Meeting on 21 May 2021 and the substitution of the resolution by the Annual General Meeting on 25 September 2020 provided the authorization to acquire and dispose of its own shares with the right of excluding subscription or other option rights to offer shares. According to this, the Executive Board is authorized with the approval of the Supervisory Board to acquire and dispose of its own shares up to a total amount of 10 % of the capital stock in existence on the date that the resolution is adopted. This resolution is effective from the date of the Annual General Meeting and ends at 12 midnight on 20 May 2026. The conditions for acquisition, appropriation and exclusion of subscription rights were explicitly regulated.

No portfolio of treasury shares was held on the balance sheet date. In the business year 2020/2021, no shares were purchased or sold.

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

If there is a change in control resulting from a takeover offer, the current sole Member of the Executive Board will receive a severance payment within 12 months of the change of control amounting to 75 % of the current annual gross income to which he is entitled on the date of the contract termination if he exercises the contractually agreed special right to serve notice of termination within 12 months of the change of control. A change of control is deemed to exist if one or more than one shareholders acting together, who alone or together do not currently hold a majority of the shares in the company, alone or together acquire more than 50 % of the voting rights in the company, or the company becomes a dependent company by concluding a company agreement pursuant to Article 291 Section 1 Stock Corporation Act (AktG). The same shall apply if the company merges with another enterprise. For such an eventuality, the Vice Presidents were granted an extended deadline for serving notice of termination. In the case of voluntary notice of termination issued by the Vice President, he is entitled to request the waiver to prohibition on competition.

7. LEGAL DISCLOSURES

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

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

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

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

Unterföhring, 13 January 2022

KPS

BUSINESS FIGURES

2021

KPS AG Consolidated Financial Statements in accordance with IFRS

INCOME STATEMENT

1 October 2020 to 30 September 2021

in Keuros		Note	2020/2021	2019/2020
1	Revenues	5.1.	157,979	166,446
2	Own work capitalized	5.2.	950	1,412
3	Other operating income	5.3.	1,186	961
4	Cost of materials	5.4.	-52,583	-58,381
5	Personnel expenses	5.5.	-69,941	-67,455
6	Other operating expenses	5.6.	-15,945	-20,307
7	Operating result before depreciation and amortization (EBITDA)		21,647	22,675
8	Depreciation and amortization (M&A adjusted) *	5.7.	-7,341	-7,276
9	Operating result (EBIT) adjusted *		14,306	15,400
10	Depreciation and amortization (M&A related)	5.7.	-898	-1,294
11	Operating result (EBIT)		13,408	14,106
12	Financial income	5.9.	9	103
13	Financial expenses	5.9.	-982	-1,939
14	Financial result		-973	-1,836
15	Earnings before income taxes **		12,435	12,270
16	Income tax	5.10.	-3,708	-4,127
17	Earnings after income taxes		8,727	8,143
	Number of shares in thousands - basic/diluted		37,412	37,412
in euros				
	Earnings per share			
	– basic	5.11.	0.23	0.22
	– diluted	5.11.	0.23	0.22

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

** corresponds to earnings from ordinary activities

KPS AG Consolidated Financial Statements in accordance with IFRS

COMPREHENSIVE INCOME
STATEMENT for the period from 1 October 2020 to 30 September 2021

in Keuros	2020/2021	2019/2020
Earnings after income taxes	8,727	8,143
Actuarial gains and losses arising from defined benefit pension commitments and similar obligations	-266	303
Foreign currency translation adjustment for foreign subsidiary companies	-110	-107
Comprehensive income	8,351	8,339

INDICATORS FOR THE INCOME STATEMENT

in million euros	2020/2021	2019/2020
Revenues	158.0	166.4
EBITDA	21.6	22.7
EBITDA margin	13.7%	13.6%
EBIT	13.4	14.1
EBIT margin	8.5%	8.5%

KPS AG Consolidated Financial Statements in accordance with IFRS

GROUP BALANCE SHEET

As of 30 September 2021

ASSETS

in KEuros		Note	30.09.2021	30.09.2020
ASSETS				
A. NON-CURRENT ASSETS				
I.	Property, plant and equipment	6.1.	2,406	2,698
II.	Goodwill	6.2.	62,546	62,546
III.	Other intangible assets	6.2.	12,627	14,095
IV.	Rights of use from leasing contracts	6.3.	26,666	28,979
V.	Deferred tax assets	6.4.	4,601	4,247
			108,845	112,565
B. CURRENT ASSETS				
I.	Property, plant and equipment	6.5.	6,036	8,172
II.	Goodwill	6.6.	34,500	30,130
III.	Other intangible assets	6.7.	1,840	1,586
IV.	Rights of use from leasing contracts	6.8.	1,127	1,440
V.	Deferred tax assets	6.9.	8,060	20,115
			51,563	61,444
Total assets			160,408	174,009

KPS AG Consolidated Financial Statements in accordance with IFRS

GROUP BALANCE SHEET

As of 30 September 2021

LIABILITIES AND SHAREHOLDERS' EQUITY

in Keuros		Note	30.09.2021	30.09.2020
A. SHAREHOLDERS' EQUITY				
Share in equity attributable to shareholders of KPS A				
I.	Subscribed capital	6.10.1	37,412	37,412
II.	Capital reserve	6.10.4	-10,222	-10,222
III.	Retained earnings	6.10.5	663	663
IV.	Other comprehensive income	6.10.6	264	-111
V.	Group net profit	6.10.7	40,902	38,535
Total equity			69,019	66,277
LIABILITIES				
B. NON-CURRENT LIABILITIES				
I.	Non-current provisions	6.11.	1,925	3,923
II.	Other non-current liabilities	6.12.	295	4,244
III.	Non-current financial liabilities	6.13.	4,000	9,300
IV.	Non-current leasing liabilities	6.3.	21,747	24,135
V.	Deferred tax liabilities	6.14.	1,860	2,248
			29,827	43,850
C. CURRENT LIABILITIES				
I.	Trade liabilities	6.15.	7,639	7,009
II.	Financial liabilities	6.16.	17,300	23,300
III.	Contractual liabilities	6.17.	196	200
IV.	Other provisions	6.18.	13,821	11,337
V.	Other liabilities	6.19.	14,987	15,433
VI.	Current leasing liabilities	6.3.	4,620	4,590
VII.	Income tax liabilities	6.20.	3,000	2,013
			61,562	63,882
Total liabilities			91,389	107,732
Total shareholders' equity and liabilities			160,408	174,009
Equity ratio			43.0%	38.1%

KPS AG Consolidated Financial Statements in accordance with IFRS

CONSOLIDATED CASH FLOW STATEMENT IN ACCORDANCE WITH IFRS

for the period from 1 October 2020 to 30 September 2021

in KEuros		2020/2021	2019/2020
A.	**Current business operations**		
	Earnings before interest and income taxes (EBIT)	13,408	14,106
	Depreciation of fixed assets	8,239	8,570
	Change in current assets	-2,488	6,841
	Change in provisions	255	-517
	Other non-cash expenses and income	483	2,234
	Changes in other liabilities	584	-2,527
	Losses from asset disposals	1	-30
	Taxes paid	-3,107	-6,735
	Interest received	5	98
	Cash inflow/outflow from business operations	17,380	22,040
B.	**Investment activities**		
	Investments in property, plant and equipment	-124	-1,935
	Investments in intangible assets	-1,344	-1,546
	Investments in acquisition of KPS Business Transformation and Digital, S.L.U., Spain	-2,000	-7,984
	Investments in acquisition of Infront, Hamburg	-1,484	-2,370
	Investments in acquisition of KPS Digital Ltd., Great Britain	-1,231	-1,004
	Cash receipts from sale of assets	0	0
	Cash inflow/outflow from investment activities	-6,183	-14,839
C.	**Financial activities**		
	Interest paid	-357	-334
	Interest paid for leasing liabilities	-159	-154
	Cash receipts from taking out loans	12,000	24,000
	Payments for the settlement of loans	-23,300	-8,805
	Payments for the settlement of leasing liabilities	-5,077	-5,287
	Dividend pay-outs	-6,360	-6,360
	Cash inflow/outflow from financial activities	-23,253	3,060
D.	**Net change in cash fund**	**-12,056**	**10,261**

in KEuros		2020/2021	2019/2020
E.	**Cash funds at the beginning of the period**	**20,115**	**9,855**
F.	**Related consolidation changes in cash fund**	**0**	**0**
G.	**Cash funds at the end of the period**	**8,060**	**20,115**
	COMPOSITION OF CASH FUND	**Balance 30.09.2021**	**Balance 30.09.2020**
in Keuros			
	Cash in hand and bank balances	8,060	20,115
Cash funds		8,060	20,115

KPS AG Consolidated Financial Statements in accordance with IFRS

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT KPS – IFRS

						Accumulated other comprehensive income			
in KEuros	**Subscribed capital**	**Treasury shares**	**Total of subscribed capital**	**Capital reserve**	**Retained earnings OCI**	**Currency translation differences**	**Pension commitments**	**Group net profit**	**Equity**
30.09.2019	**37,412**	**0**	**37,412**	**-10,222**	**663**	**69**	**-433**	**36,752**	**64,241**
Disposal of treasury shares	0	0	0	0	0	0	0	0	0
Dividend payout	0	0	0	0	0	0	0	-6,360	-6,360
Changes recognized without affecting income	0	0	0	0	0	-107	360	0	253
Group earnings	0	0	0	0	0	0	0	8,143	8,143
30.09.2020	**37,412**	**0**	**37,412**	**-10,222**	**663**	**-38**	**-73**	**38,535**	**66,277**
Disposal of treasury shares	0	0	0	0	0	0	0	0	0
Dividend payout	0	0	0	0	0	0	0	-6,360	-6,360
Changes recognized without affecting income	0	0	0	0	0	110	265	0	375
Group earnings	0	0	0	0	0	0	0	8,727	8,727
30.09.2021	**37,412**	**0**	**37,412**	**-10,222**	**663**	**72**	**192**	**40,902**	**69,019**

KPS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2021

1. INFORMATION ON THE COMPANY AND THE GROUP

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

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

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

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

1.1 Accounting principles

The consolidated financial statements of KPS AG drawn up for the period to 30 September 2021 were prepared in accordance with the regulations of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), London, and the interpretations of the IFRS Interpretations Committee (IFRIC). The version of the IASB relating to the consolidated financial statements is in accordance with the view of the European Union, since up to 30 September 2021 all applicable standards and interpretations, which exert effects on the consolidated financial statements, were adopted.

The business year of the Group deviates from the calendar year and extends from 1 October 2010 to 30 September 2021.

The consolidated financial statements are prepared in euros (€, EUR). Unless otherwise noted, all amounts are given in thousand euros (KEUR, 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 2020/2021, the equivalent year-earlier figures are given for purposes of comparison. These are presented in brackets.

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

The Executive Board of KPS AG prepared the consolidated financial statements on 13 January 2022 and presented them to the Supervisory Board. The Supervisory Board has the function of auditing the consolidated financial statements and declaring whether they approve them.

1.2 Amendments to IFRS Standards

The following published standards already endorsed by the EU are not likely to exert any substantial effects on the financial position, results of operations and asset position of the Group or the possibility of relief has not been made use of by KPS AG:

- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform
- Annual Improvements to IFRSs 2018-2020

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

- Amendments to IAS 16: Proceeds before Intended Use
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IFRS 3: Reference to the Conceptual Framework
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IFRS 17: Insurance contracts
- Amendments to IAS 8: Changes in Accounting Estimates

2. PRINCIPLES AND METHODS, AND UNCERTAINTIES DUE TO ESTIMATES

2.1 Application of decisions of judgement and estimates

The management has to make certain assumptions and assessments in the consolidated financial statements which may exert a significant influence on the presentation of the net assets. financial position and results of operations. Estimates are based on experiential values and other assumptions, which are regarded as appropriate under the specific circumstances. They are continually reviewed but may deviate from the actual values.

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

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

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

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

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

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

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

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

Planning for the following business year is done at the project level. Projects that have already been contracted or are highly probable are planned, as well as potential client projects. Owing to the emergence of new virus variants (e.g. the Omicron variant identified in November 2020), it is currently only possible to make any predictions to a limited extent about the duration and scope of the consequent impacts on assets, liabilities, financial situation, results and cash flows of KPS and these are associated with increased uncertainties.

The relevant estimates and assumptions made when the consolidated financial statements for 30 September 2021 were prepared on the basis of the knowledge at the time and the available information.

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

There is the risk that further COVID-19-related impacts on the consolidated financial statements may arise, in particular as a result of delayed payments, payment defaults, delays in incoming orders, as well as in order processing, contract terminations, modified revenue and cost structures. Potential interest-rate adjustments and currency effects resulting from the Coronavirus pandemic may also exert a negative impact on the markets where KPS is operating.

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

3. CONSOLIDATION

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

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

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

Shareholding	Registered office	Share in %	Currency	Subscribed capital 30.09.2021 (previous year)	Equity capital 30.09.2021 (previous year)	Result for the year 2020/2021 (previous year)
KPS Business Transformation GmbH (1)	Unterföhring	100	KEUR	500	629	789
				(500)	(759)	(-2,386)
KPS Services GmbH	Unterföhring	100	KEUR	6,300	10,237	1,072
				(6,300)	(9,165)	(1,334)
KPS Consulting Verwaltungs GmbH	Unterföhring	100	KEUR	26	39	0
				(26)	(39)	(1)
KPS Consulting GmbH & Co. KG	Unterföhring	100	KEUR	5,113	4,978	332
				(5,113)	(4,645)	(-467)
KPS Consulting AG	Zurich/ Switzerland	100	KCHF	100	1,603	1,453
				(100)	(955)	(805)
KPS Solutions GmbH	Unterföhring	100	KEUR	80	-5,261	-8,230
				(80)	(2,969)	(529)
KPS digital GmbH (1)	Dortmund	100	KEUR	25	2,554	670
				(25)	(2,554)	(350)
KPS Consulting A/S	Virum/ Denmark	100	KDKK	500	37,429	6,410
				(500)	(38,206)	(19,805)
KPS B.V.	Amsterdam/ Netherlands	100	KEUR	100	1,597	1,497
				(100)	(1,580)	(1,480)
KPS Consulting Inc. (2)	Wilmington/ USA	100	KUSD	0	0	0
				(100)	(160)	(-2)
KPS Strategie-, Prozess- und IT-Consulting GmbH	Vienna/ Austria	100	KEUR	100	-532	-447
				(100)	(-84)	(-93)
KPS Business and Digital Transformation, S.L.U.	Barcelona/ Spain	100	KEUR	59	3,643	1,693
				(59)	(3,951)	(1,993)
Infront Consulting & Management GmbH	Hamburg	100	KEUR	50	4,796	972
				(50)	(3,824)	(1,444)
KPS Digital Ltd.	London/ United Kingdom	100	KGBP	0.2	3,944	2,379
				(0.2)	(2,534)	(1,258)
KPS Consulting AS	Oslo/ Norway	100	KNOK	500	11,385	9,087
				(500)	(2,251)	(1,751)
KPS Sweden	Stockholm/ Sweden	100	KSEK	500	-2,660	-485
				(500)	(2,175)	(-2,675)

[1.)] The profit for the year 2020/2021 was transferred to KPS AG in accordance with the profit transfer agreement concluded.

[2.)] At the end of the previous business year, the company was wound up.

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

The consolidated financial statements are based on the annual financial statements of the consolidated companies prepared on 30 September 2021 in accordance with the accounting and valuation principles applied uniformly across the Group. The annual financial statements have been audited and approved or they were subject to an audit review in the course of the audit of the consolidated financial statements. No audit was carried out for KPS Strategie-, Prozess- und IT-Consulting GmbH because the company had not had its own operating activity in the course of the business year.

4. ACCOUNTING AND VALUATION PRINCIPLES

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

4.1 Currency translation

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

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

4.2 Revenue recognition

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

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

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

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

Step 3: Determination of the transaction price
The total transaction price for a contract is initially established and then allocated to the individual performance obligations. The transaction price is the amount which the KPS Group is entitled to expect as a consideration in exchange for the transfer of goods or services. The amount of the consideration must take into account the effects of variable remunerations, significant financing components, non-cash effective considerations and considerations payable to the customer. However, the Group has not identified any significant variable remunerations. The KPS Group refrains from reducing its promised

considerations by a financial component if the term of payment is maximally one year. If the term of payment exceeds one year, the revenues are adjusted by discount to fair value.

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

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

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

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

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

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

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

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

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

Service contracts
Revenues from service contracts should be recorded for the relevant period because the units provided cannot be used by the company in any other way and the company has a payment entitlement for the goods or services provided so far. The revenues are recorded on the basis of input-based methods for measurement of the progress of performance, if the earnings from a service contract can be reliably assessed. If the earnings from a service contract can be reliably assessed, the order revenues and the

order costs should be recorded in association with this service contract and in accordance with the progress of the performance on the balance sheet date in each case as a portion of the order costs incurred for the work carried out in proportion to the expected order costs. Any changes to the contractual work, the claims and the performance bonuses are included to the extent that they were agreed with the customer. If the earnings from a service contract cannot be reliably determined, the order revenues should only be recorded in the amount of the incurred order costs which are likely to be recoverable. Order costs are recorded as an expense during the period in which they arise. If it is likely that the overall order costs will exceed the total order revenues, the expected loss is immediately recorded as expense. An expected loss from a service contract should be recorded as expense as soon as this loss appears probable. The customer is usually charged when the revenue is recorded. As a rule, invoices are payable within up to 30 days.

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

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

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

There were no contract initiation costs in accordance with IFRS 15.91 such as commissions on sales which the company would not have incurred without the conclusion of a contract with a customer in the business year 2020/2021.

4.3 Intangible assets

Research and development costs

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

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

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

Goodwill

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

Goodwill does not undergo scheduled amortization, but is tested for impairment every year. Details of the annual impairment tests are explained in the section on the method and effects of impairment tests.

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

Other intangible assets

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

Other intangible assets are recognized at the acquisition or manufacturing costs. If they have a determinable useful life, they are amortized on a straight line basis over a period of up to 10 years, except where their actual depletion demands a different method of amortization. Definition of the likely useful lives and the amortization methods is based on estimates of the period of cash inflows from the intangible assets and their temporal distribution within this period. At the end of the business year, a review of the useful life and the amortization methods is carried out.

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

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

4.4 Property, plant and equipment

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

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

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

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

	Years
IT hardware	3 - 5
Business equipment	3 - 10

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

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

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

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

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

4.5 Leases

Leasing activities of the Group and their accounting treatment

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

The practical expedient of IFRS 16 in relation to lessor concessions as a direct result of the Covid 19 pandemic has not been applied.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.6 Procedure for and effects of impairment audits

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

The allocation to the individual CGUs is based on internal management segments.

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

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

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

The weighted average cost of capital (WACC) used for recoverability tests of goodwill and for discounting of projected cash flows for the three cash-generating units was 7.0 % on the balance sheet date. Specific country risks were weighted in the capital cost rate. When calculating the perpetual annuity, a growth factor of 1 % was used on the determined capital cost rate.

4.7 Financial instruments

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

Financial instruments are recognized as soon as KPS becomes a contractual partner in accordance with the rules of the financial instrument.

Financial investments and other financial assets

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

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

Financial assets valued at amortized cost (debt instruments)

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

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

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

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

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

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

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

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

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

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

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

Cash and cash equivalents

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

Derecognition of financial assets and financial liabilities

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

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

Derivative financial instruments

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

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

Financial liabilities

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

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

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

Financial liabilities measured at fair value with an effect on income comprise financial liabilities held for trading purposes and other financial liabilities (in particular earn-out obligations in accordance with IFRS 3.58b ii) which at their first-time recognition are classified as measured at fair value with an effect on income. Transaction costs are recognized directly in the income statement. The contingent considerations (earn-out obligations) were measured on the basis of the company’s individual plans based on the discounted cash-flow method. WACCs of between 6.8% and 8.1% were used to determine the obligations as at 30 September 2021. These interest rates include country-specific risks. In the reporting year 2020/2021, income amounting to KEUR 89 (previous year: expense KEUR 1,278) from the revaluation of these obligations were recognized in the income statement as profit or loss.

Subsequent valuation

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

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

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

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

Derecognition

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

4.8 Income taxes

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

In compliance with IAS 12 (Income Taxes), deferred taxes are calculated for temporary (or effectively permanent) differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and the balance sheet drawn up for tax purposes, on account of consolidation measures and on account of tax loss carryforwards and tax credits likely to be realizable. Deferred tax assets relating to deductible temporary differences, tax credits and tax loss carryforwards are recognized to the extent that it is sufficiently probable that a taxable benefit will arise in the future.

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

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

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

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

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

4.9 Treasury shares

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

4.10 Provisions

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

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

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

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

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

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

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

4.11 Pension provisions

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

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

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

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

4.12 Company acquisitions

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

4.13 Principles of consolidation

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

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

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

5. EXPLANATIONS FOR THE INCOME STATEMENT

5.1 Revenues

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

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

All revenues shown result exclusively from contracts with customers.

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

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

	Year under review 2020/2021		Year under review 2019/2020	
	KEuro	%	KEuro	%
Provision of services	155,149	98.2%	160,131	96.2%
Sales of goods and hardware	263	0.2%	3,842	2.3%
Maintenance	2,567	1.6%	2,473	1.5%
Total revenues	157,979	100%	166,446	100%

In the business year 2020/2021, revenues amounting to KEUR 196 (previous year: KEUR 174) were recognized which relate to incoming payments from earlier accounting periods.

In the business year 2020/2021, no significant revenues arising from performance obligations, which were fulfilled in previous accounting periods, were recorded.

Transaction prices result from maintenance contracts with a residual term of up to 2.5 years, which were not yet recognized as revenues. The likely revenues to be recorded are distributed as follows:

in Keuros	Year under review 2020/2021	Year under review 2021/2022	Year under review 2022/2023	Year under review 2023/2024	Total
Revenues likely to be recognized	2,056	763	271	0	**3,090**

5.2 Own work capitalized

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

in Keuros	Year under review 2020/2021	Year under review 2019/2020
Development of processing streams for SAP	230	978
Internally generated software	720	434
Total all work capitalized	950	1,412

5.3 Other operating income

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

	Year under review 2020/2021	Year under review 2019/2020
	KEuros	KEuros
Income from release of provisions	177	41
Income from discounts	192	176
Income from exchange-rate differences	216	224
Income from release of earn-out obligations	283	0
Income from subleasing	236	
Other income	83	519
Total other operating income	1,186	961

5.4 Cost of materials

The cost of materials amounted to KEUR 52,583 (previous year: KEUR 58,381) and includes expenses for hardware and software purchased amounting to KEUR 2,226 (previous year: KEUR 4,965) and expenses for services purchased amounting to KEUR 50,357 (previous year: KEUR 53,416).

5.5 Personnel expenses and employees

Personnel expenses in the year under review amounted to KEUR 69,941 (previous year: KEUR 67,455). Wages and salaries account for KEUR 61,822 (previous year: KEUR 59,402) and social security expenses account for KEUR 8,119 (previous year: KEUR 8,053).

The expenses for defined benefit pension plans included in personnel expenses amounted to KEUR 114 (previous year: KEUR 215).

On average, 614 (previous year: 632) employees (not including Members of the Executive Board and Managing Directors) were employed over the year, of which 517 (previous year: 630) were consultants and 97 (previous year: 87) were administrative employees.

	30.09.2021	30.09.2020	Change
Employees by region			
Germany	459	447	12
Spain	75	81	-6
England	75	54	21
Denmark	18	18	0
Switzerland	5	4	1
Austria	5	5	0
Netherlands	3	3	0
Norway	3	4	-1
Sweden	4	3	1
Total	647	619	28
Employees by function			
Executive Board	1	1	0
Managing Directors	12	14	-2
Consultants	529	516	13
Administration	101	85	16
Apprentices	4	3	1
Total	647	619	28

5.6 Other operating expenses

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

in KEuros	Year under review 2020/2021	Year under review 2019/2020
Purchased services	4,364	3,695
Legal and consulting costs	1,427	1,505
Personnel recruitment and advanced training	1,408	1,114
Travel and hospitality costs	1,395	4,354
Premises costs	1,233	1,372
Vehicle costs	1,128	1,358
Valuation allowance for receivables	429	559
Advertising and marketing costs	796	1,275
Telephone and other communication costs	564	624
Insurance policies	305	305
Addition of earn-out obligations	194	1,278
Capital market costs	217	362
Currency translation differences	443	325
Hire costs for operating and business equipment	56	158
Other expenses	1,986	2,024
Total other operating costs	15,945	20,307

5.7 Depreciation and amortization

Depreciation and amortization for the business year amounted to a total of KEUR 8,239 (previous year: KEUR 8,569). Of total depreciation and amortization, KEUR 2,319 (previous year: KEUR 2,236) are attributable to amortization and depreciation for property, plant and equipment, and intangible assets, KEUR 898 (previous year: KEUR 1,294) to amortization and depreciation on order backlog and customer relations, and KEUR 5,022 (previous year: KEUR 5,039) to amortization on rights of use.

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

5.8 Financial result

Other financial income amounted to KEUR 9 (previous year: KEUR 103) and results from discounting of non-current liabilities.

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

in KEuros	Year under review 2020/2021	Year under review 2019/2020
Revaluation of earn-out liabilities	451	1,399
Interest expenses leasing liabilities	159	154
Interest and guarantee fees to banks	355	351
Compounding of non-current provisions	17	35
Total other operating costs	982	1,939

5.9 Income taxes

Income taxes are shown in the following table:

in KEuros	2020/2021	2019/2020
Current tax expense	-4,407	-2,997
Tax expense for previous years	0	54
Deferred tax expenses	699	-1,185
Income taxes	-3,708	-4,128

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 2021, tax loss carryforwards amounted to KEUR 17,561 (previous year KEUR 14,532) for corporate income tax and KEUR 25,445 (previous year: KEUR 23,093) for trade tax.

In order to calculate deferred taxes, the local tax rates of the affected national countries were applied, these are between 11.6 % and 32.3 %.

The amount of unusable tax losses for which no deferred tax asset was recognized amounts to KEUR 5,888 (previous year: KEUR 1,211) for corporate income tax and KEUR 19,313 (previous year: KEUR 15,090).

The following table shows a reconciliation of the expected tax expense, based on the German combined income tax rate of the company from the current rate of 29.9 % (previous year: 30.4 %) to the actual tax burden. The combined rate of income tax for the year under review is made up of corporate income tax amounting to 15.0 % (previous year: 15.0 %) plus 5.5 % (previous year: 5.5 %) solidarity surcharge and trade tax amounting to 14.1 % (previous year: 14.6 %).

in KEuros	2020/2021	2019/2020
Annual profit before income taxes	12,435	12,270
Income tax rate	29.9%	30.4%
Expected nominal tax expense	-3,718	-3,733
Tax consequences resulting from:		
Tax effects on account of tax carryforwards	522	488
Tax effects on account of non-deductible operating expenses, goodwill write-downs and other tax modifications	-268	-542
Deferred taxes on loss carryforwards	171	-753
Deferred taxes on account of HB II (commercial balance sheet II) adjustments / StB (tax balance sheet effects)	-527	331
Deviations of local tax rates from the average income tax rate	110	161
Tax effects relating to other accounting periods	0	-80
Other effects	2	0
Actual income tax expense	-3,708	-4,128
Effective tax rate	29.8%	33.6%

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

in KEuros	30.09.2021		30.09.2020	
	Assets	Liabilities	Assets	Liabilities
Loss carryforwards	3,309	0	3,157	0
Pension provision	128	0	96	13
Other provisions	88	185	194	440
Trade receivables	299	30	91	37
Rights of use/ Leasing liabilities	9	317	9	89
Contract assets	301	620	0	610
Fixed assets	467	708	700	1,058
Total	4,601	1,860	4,247	2,248

Deferred tax assets amounting to KEUR 2,251 (previous year: KEUR 2,177) have a term of more than one year. Out of the deferred tax liabilities, KEUR 1,001 (previous year: KEUR 1,652) are non-current and KEUR 859 (previous year: KEUR 596) are current.

Deferred tax liabilities amounting to KEUR 25 (previous year: KEUR 13) relate to actuarial gains and losses from pension provisions and are recognized directly in other earnings.

5.10 Earnings per share

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

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

6. EXPLANATIONS FOR THE BALANCE SHEET

6.1 Property, plant and equipment

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

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

6.2 Goodwill and other intangible assets

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

	Years
Software	3 - 10
Licences	5

During the course of the business year, development costs which meet the criteria defined in IAS 38.57 were capitalized in the amount of KEUR 950 (previous year: KEUR 1,412). Development costs are recognized with the manufacturing costs. The developments capitalized in the business year had only been partly produced on the balance sheet date, the amortization booked for the business year amounted to KEUR 1,741 (previous year: KEUR 1,667). The development costs are written down for the projected useful life of up to 10 years as soon as the assets can be used.

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

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

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

in KEuros	2020/2021	2019/2020
Management consulting/Transformation consulting	62,081	62,081
System Integration	120	120
Products/ Licenses	345	345
Total	62,546	62,546

The annual impairment tests for goodwill are carried out on 30 September. In the business year 2020/2021, there was no requirement for impairment.

6.3 Deferred tax assets

Deferred tax assets amounted to KEUR 4,601 (previous year: KEUR 4,247) and essentially reflect the level of likely tax loss carryforwards of KPS AG, KPS Consulting GmbH & Co. KG, KPS Services GmbH and KPS Solutions GmbH.

6.4 Contractual assets

In the case of works contracts (fixed-price projects), KPS is entitled to advance payments as soon as specified performance-related milestones have been reached and acceptance by the customer has taken place. Up to that point, the goods and services provided are capitalized as contractual assets. Amounts recognized as a contractual asset in the amount of KEUR 6,036 (KEUR 8,172) are transferred to trade receivables at the point when an invoice is issued to the customer. Contractual assets fall due within one year.

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

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

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

in KEuros	2020/2021	2019/2020
Impairment ratio	0.56%	0.07%
Estimated book value on default	6,070	8,172
Amounts not overdue	6,070	8,172
Losses expected over the residual term	34	6
Net book value	6,036	8,167

6.5 Trade receivables

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

in KEuros	2020/2021	2019/2020
Trade receivables	35,799	31,112
Individual valuation allowances	-1,372	-907
Allowances for expected credit losses	-193	-75
Total Trade receivables	34,500	30,130

6.6 Other receivables and financial assets

The following table shows the breakdown of other receivables:

in KEuros	2020/2021	2019/2020
Advance payments	1,399	853
Deposit payments	238	266
Creditor accounts in debit	104	7
Refund claims from foreign input taxes	22	78
Other receivables	77	380
Total other assets	1,840	1,584

6.7 Entitlements to income tax rebates

On the balance sheet date, entitlements arising from income tax amounted to KEUR 1,127 (previous year: KEUR 1,440).

6.8 Cash and cash equivalents

Bank balances and cash in hand amounted to KEUR 8,060 (previous year: KEUR 20,115) on the balance sheet date. The development of liquid funds is shown in the cash flow statement.

6.9 Shareholders' equity

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

6.9.1 Subscribed capital

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

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

6.9.2 Authorized capital

The authorization for creation of authorized capital 2017/I approved by the Annual General Meeting on 25 September 2020 was cancelled by resolution of the ordinary Annual General Meeting held on 21 May 2021. Instead, authorized capital 2021/I was created in the amount of 18,706,050.00 euros.

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

There was no change in the authorized capital 2021/I during the business year 2020/2021.

6.9.3 Contingent capital

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

6.9.4 Capital reserve

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

in KEuros	2020/2021
Balance on 30.09.2019	-10,222
Capital gain from sale of treasury shares	0
Share premium on capital increase	0
Balance on 30.09.2020	-10,222
Capital gain from sale of treasury shares	0
Share premium on capital increase	0
Balance on 30.09.2021	-10,222

6.9.5 Retained earnings

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

6.9.6 Other earnings

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

in KEuros	30.09.2021	30.09.2020
Items not classified in the income statement:		
Change in actuarial profits (losses) from pension plans	167	-60
Items that will not be reclassified in the income statement in future:		
Exchange-rate differences	72	-38
of which changes in unrealized gains/losses	87	-38
of which realized gains/losses	-15	0
Other comprehensive income before taxes	239	-98
Taxes on other earnings	25	-13
Other earnings after taxes	264	-111

6.9.7 Group net profit

The development of the Group net profit recognized on 30 September 2021 is shown in the table below:

in KEuros	2020/2021	2019/2020
Balance on 01.10.	38,535	36,752
Earnings after income taxes	8,727	8,143
Share premium on treasury shares	0	0
Allocation to other retained earnings	0	0
Dividend payout	-6,360	-6,360
Balance on 30.09.	40,902	38,535

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

6.9.8 Treasury shares

The resolution adopted by the Annual General Meeting on 21 May 2021 and the substitution of the resolution by the Annual General Meeting on 25 September 2020 provided the authorization to acquire and dispose of its own shares with the right of excluding subscription or other option rights to offer shares. According to this, the Executive Board is authorized with the approval of the Supervisory Board to acquire and dispose of its own shares up to a total amount of 10 % of the capital stock in existence on the date that the resolution is adopted. This resolution is effective from the date of the Annual General Meeting and ends at 12 midnight on 20 May 2026. The conditions for acquisition, appropriation and exclusion of subscription rights were explicitly regulated.

No portfolio of treasury shares was held on the balance sheet date. In the business year 2020/2021, no shares were purchased or sold.

6.10 Non-current provisions

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

in KEuros	01.10.2020	Utilization	Release	Addition	30.09.2021
Provision for personnel	3,272	-2,307	-72	603	1,496
Provision for pensions	651	-222	0	0	429
Total	3,923	-2,529	-72	603	1,925

The non-current provisions for personnel relate to obligations for bonus payments arising from a management loyalty programme in the amount of KEUR 1,073 (KEUR 2,734) and to obligations for further bonuses arising from a phased-in retirement contract in the amount of KEUR 423 (KEUR 539). When the obligation for bonus payments was calculated, staff turnover was not taken into account because the company is assuming fulfilment of the contractual obligations.

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

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

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

in KEuros	2020/2021	2019/2020
1. Actuarial assumptions IAS 19.144		
Discount rate (DR) as at 01.10.	0.2 %	0.0 %
Discount rate (DR) as at 30.09.	0.2 %	0.2 %
Interest rate on retirement assets as at 30.09.	0.5 %	0.5 %
Future salary increases (SI) as at 30.09.	1.5 %	1.5 %
Future pension increases (PI) as at 30.09.	0.0 %	0.0 %
Future inflation as at 30.09.	0.0 %	0.5 %
Mortality tables	BVG2020 GT	BVG2015 GT
Date of the last actuarial valuation	30/09/2020	30/09/2019
2. Reconciliation of the cash value of defined benefit pension plans IAS 19.140		
Cash value from the defined benefit obligation as at 30.09	2,773	2,636
Capital value from plan assets as at 30.09	2,343	1,985
Deficit/(surplus) as at 30.09	429	651
Net debt from defined benefit pension plans (assets) as at 30.09.	429	651
of which recognized as separate liability	429	651
3. Components of defined benefit costs in the income statement IAS 19.140		
Current Service Cost (employer)	112	214
Expenses from compounding of defined benefit obligations	5	0
Interest (income) from plan assets	-4	0
Administrative costs plus costs for administration of plan assets	1	2
Components of the defined benefit costs recognized in the income statement	114	215
of which service and administrative costs	113	215
of which net interest on the net debt from defined benefit pension plans (asset)	1	0
4. Components of defined benefit costs in OCI IAS 19.140		
Actuarial (gain)/loss on the cash value of the defined benefit obligation	-101	-246
Income from plan assets plus interest income	-156	-57
Components of the defined benefit costs recognized in the OCI	-258	-303
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	649	834
Components of the defined-benefit costs recognized in the income statement	114	215
Components of the defined-benefit costs recognized in the OCI	-258	-303
Contributions by the employer	-77	-95

in KEuros	2020/2021	2019/2020
Components of the defined-benefit costs recognized in the OCI	429	651
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	2,630	3,023
Expenses of the cash value of the defined-benefit obligation	5	0
Current Service Cost (employee)	112	214
Contributions by plan participants	77	95
(Paid-out)/paid-in benefits	49	-452
Administrative costs (plus costs for administration of plan assets)	1	2
Actuarial (gain)/loss on the cash value of the defined benefit obligation (settlement amount)	-101	-246
Cash value of the defined benefit obligation as at 01.10	2,773	2,636
7. Components of actuarial gain/loss on obligations IAS 19.141		
Actuarial (gain)/loss on account of amendments to demographic assumptions	-140	0
Actuarial (gain)/loss on account of expectancy value adjustments	39	-246
Actuarial (gain)/loss from the cash value of the defined benefit obligation	-101	-246
8. Development of the capital value from plan assets IAS19.140 (a), IAS 19.141		
Capital value from plan assets as at 01.10	1,980	2,190
Interest income from plan assets	4	0
Contributions by the employer	77	95
Contributions by the plan participants	77	95
(Paid-out)/paid-in benefits	49	-452
Income from plan assets plus interest income	156	57
Capital value from plan assets as at 30.09.	2,343	1,985
8a. Actual income from plan assets		
Interest from income from plan assets	4	0
Income from plan assets plus interest income	156	57
Actual income from plan assets	161	57
9. Components of the economic benefit available IAS 19.141 ©		
Economic benefit available in the form of a reduction in future contributions	11,585	19,741
Total economic benefit available	11,585	19,741
9a. Recognizable amount under IAS 19.64		
(a) Deficit/(surplus) in the defined benefit plan		
- Cash value of the defined benefit obligation	-2,773	-2,636

in KEuros	2020/2021	2019/2020
+ Fair value of the plan assets	2,343	1,985
Deficit/surplus (+ = asset value; - = liability)	-429	-651
(b) Upper limit, economic benefit available	11,585	19,741
Recognizable amount (lower than (a) and (b) if asset)	-429	-651
10. Estimate of the contributions from next year IAS 19.147 (b)		
Contributions by employees	72	72
Contributions by plan participants	72	72
11. Plan asset classes (non-listed price) IAS 19.142		
Cash and cash equivalents	59	37
Equity instruments	841	605
Debt securities	855	818
Real estate	524	454
Other	64	70
Total interest income on the capital value (non-listed price)	2,343	1,985
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 %	2,904	2,770
DBO as at 30.09. with DR +0.25 %	2,651	2,512
DBO as at 30.09. with IR -0.25 %	2,723	2,589
DBO as at 30.09. with IR +0.25 %	2,823	2,683
DBO as at 30.09. with SI -0.25 %	2,756	2,610
DBO as at 30.09. with SI +0.25 %	2,788	2,661
DBO at as 30.09. with life expectancy + 1 year	2,824	2,687
DBO as at 30.09. with life expectancy - 1 year	2,721	2,584
SC of next year with DR +0.25 %	88	103
SC of next year with IR +0.25 %	98	115
13. Due-date profile of the cash value of the defined benefit obligation IAS 19.147		
Weighted average term of the cash value of the defined benefit obligation in years	18.3	20
Weighted average term of the cash value of the defined benefit obligation in years for active members	18.3	20
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	2,773	2,636

6.11 Other non-current liabilities

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

in KEuros	2020/2021	2019/2020
Provisions for future earn-out payments	274	4,187
Valuation of financial derivatives	21	57
Total	295	4,244

The interest swap had a negative fair value amounting to KEUR 21 (previous year: KEUR 57) on 30 September 2021.

6.12 Non-current financial liabilities

The other non-current financial liabilities amount to KEUR 4,000 (previous year: KEUR 9,300). This total breaks down into a loan in the amount of KEUR 1,000 (previous year: KEUR 4,800) with a residual term of 1.5 years and a further loan in the amount of KEUR 3,000 (previous year: KEUR 4,500) with a residual term of 2 years. Both loans serve to finance company acquisitions.

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

6.13 Deferred tax liabilities

The deferred tax liabilities amounted to KEUR 1,860 (previous year: KEUR 2,248).

6.14 Trade liabilities

Trade liabilities amounted to KEUR 7,639 (previous year: KEUR 7,009) and result primarily from purchased consulting services.

6.15 Financial liabilities

On the balance sheet date, liabilities to banks amounted to KEUR 17,300 (previous year: KEUR 23,300) with a residual term of up to one year.

6.16 Contractual liabilities

The contractual liabilities in the amount of KEUR 196 (previous year: KEUR 200) include prepayments collected from customers for future provision of services.

6.17 Other provisions

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

in KEuros	01.10.2020	Utilization	Release	Addition	30.09.2021
Provision for personnel	8,919	-8,666	-37	10,980	11,196
Provision for outstanding accounts	531	-523	-9	322	321
Provision for finan-cial statements/audit expenses	198	-198	0	259	259
Provisions for guarantees	0	0	0	200	200
Other provisions	1,688	-1,014	-59	1,319	1,934
Total	11,336	-10,401	-105	13,081	13,911

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

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

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

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

6.18 Other liabilities

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

	30.09.2021		30.09.2020	
in KEuros	up to 3 months	3 – 12 months	up to 3 months	3 – 12 months
Liabilities to employees	3,638	0	4,054	0
Wage and church taxes due	1,732	0	1,345	0
Liabilities for sales taxes and other taxes	3,022	0	2,535	0
Social security payments due	240	0	185	0
Purchase obligation Saphira Consulting A/S (Bonus)	0	0	0	547
Purchase obligation Business and Digital Transformation S.L.U.	2,329	0	2,000	0
Earn-Out Infront Consulting & Management GmbH	1,018	781	1,484	1,026
Earn-Out KPS Digital Ltd.	1,135	964	1,231	926
Other liabilities	127	0	100	0
Total other liabilities	13,241	1,745	12,934	2,499

6.19 Liabilities from income tax

The tax liabilities amounting to KEUR 3,000 (previous year: KEUR 2,013) comprise liabilities for corporate income taxes amounting to KEUR 2,727 (previous year: KEUR 1,836) and liabilities from trade taxes amounting to KEUR 273 (previous year: KEUR 177).

6.20 Reporting on financial instruments

6.20.1 Information on financial instruments by categories

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

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

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

		Valued at the fair value		Valued at amortized cost	Not within the scope of IFRS 7	Balance sheet items at the end of the business year
in KEuros		Book value	Book value	Fair Value	Book value	
Current assets						
Contractual assets		0	6,036	6,036	0	6,036
	(previous year)	(0)	(8,172)	(8,172)	(0)	(8,172)
Trade receivables		0	34,500	34,500	0	34,500
	(previous year)	(0)	(30,130)	(30,130)	(0)	(30,130)
Other receivables and financial assets		0	1,811	1,811	29	1,840
	(previous year)	(0)	(1,186)	(1,734)	(400)	(1,586)
Cash and cash equivalents		0	8,060	8,060	0	8,060
	(previous year)	(0)	(20,115)	(20,115)	(0)	(20,115)
Non-current liabilities						
Financial liabilities		0	4,000	4,000	0	4,000
	(previous year)	(0)	(9,300)	(9,300)	(0)	(9,300)
Other liabilities		295	0	0	0	295
	(previous year)	(2,108)	(2,136)	(2,136)	(0)	(4,244)
Leasing liabilities		0	21,747	21,747	0	21,747
	(previous year)	(0)	(24,135)	(24,135)	(0)	(24,135)
Current liabilities						
Financial liabilities		0	17,300	17,300	0	17,300
	(previous year)	(0)	(23,300)	(23,300)	(0)	(23,300)
Trade liabilities		0	7,639	7,639	0	7,639
	(previous year)	(0)	(7,009)	(7,009)	(0)	(7,009)
Other liabilities		3,898	6,040	6,040	5,049	14,987
	(previous year)	(4,667)	(6,885)	(6,885)	(3,881)	(15,433)
Leasing liabilities		0	4,620	4,620	0	4,620
	(previous year)	(0)	(4,590)	(4,590)	(0)	(4,590)

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

	Category in accordance with IFRS 7 and IFRS 9	Book Value 30.09.2021	Fair Value 30.09.2021	Book Value 30.09.2020	Fair Value 30.09.2020
Current assets					
Contractual assets	AC	6,036	6,036	8,172	8,172
Trade receivables	AC	34,500	34,500	30,130	30,130
Other receivables and financial assets	AC	1,811	1,811	1,186	1,186
Cash and cash equivalents	AC	8,060	8,060	20,115	20,115
Non-current liabilities					
Financial liabilities	AC	4,000	4,000	9,300	9,300
Other liabilities	AC	0	0	2,136	2,136
Other liabilities	FVTPL	295	295	2,108	2,108
Leasing liabilities	AC	21,747	21,747	24,135	24,135
Current liabilities					
Financial liabilities	AC	17,300	17,300	23,300	23,300
Trade liabilities	AC	7,639	7,639	7,009	7,009
Other liabilities	AC	6,040	6,040	6,885	6,885
Other liabilities	FVTPL	3,898	3,898	4,667	4,667
Leasing liabilities	AC	4,620	4,620	4,590	4,590
Of which aggregated by valuation categories					
Financial Loans and Liabilities measured at Amortized Cost (AC)	AC	50,407	50,407	59,604	59,604
Financial Liabilities at Fair Value through profit or loss	FVTPL	4,193	4,193	6,775	6,775
Financial Liabilities measured at Amortized Cost	AC	61,346	61,346	77,355	77,355

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

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

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

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

in KEuros		from interest	from subsequent valuation			from disposal	Net result
			Fair value	Currency translation	Allowances		2020/2021
Financial assets at Amortized Cost (AC)		-0	0	-123	-429	0	-552
	(previous year)	(0)	(0)	(-100)	(-559)	(0)	(-660)
Financial liabilities measured at Amortized Cost (AC)		-407	0	-105	0	0	-512
	(previous year)	(-435)	(5)	(0)	(0)	(0)	(-430)
Financial liabilities at Fair Value through Profit/Loss (FVTPF)		-258	125	0	0	0	-133
	(previous year)	(-402)	(-95)	(0)	(0)	(0)	(-497)

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

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

Valuations are at fair value:

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

in KEuros	2020/2021	2019/2020
Opening balance	6,774	19,598
Total gains/losses	133	497
- Of which recorded in the income statement	133	497
- Of which recorded in other comprehensive income	0	0
Reclassifications	0	-8,005
Additional acquisitions	0	0
Issues	0	0
Terminations	-2,715	-5,316
Transfer from stage 3	0	0
Final balance	4,192	6,774

An agreement was agreed with the sellers of KPS Business and Digital Transformation S.L.U. Barcelona, Spain, in February 2020 and the original earn-out agreement from the company acquisition was cancelled in favour of the obligation to pay a fixed amount of KEUR 10,329. This amount will be paid in three tranches. In the business year 2020/2021, KEUR 2,000 was paid.

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

The total profits and losses recorded in the income statement during the business year include losses from the addition of earn-out liabilities (category FVTPL) amounting to KEUR 194 (previous year: KEUR 1,278), income from the reversal of earn-out liabilities amounting to KEUR 283, interest expenses (category FVTPL) amounting to KEUR 258 (previous year: KEUR 1,399) and profits arising from the valuation of an interest swap (category FVTPL) amounting to KEUR 36 (previous year: KEUR 49).

6.20.2 Derivative financial instruments and hedging arrangements

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

In the context of company acquisitions, KPS AG took out a long-term loan amounting to EUR 20 million. In 2018/2019, an interest swap in the amount of EUR 10 million was concluded to hedge the interest-rate risk. The hedged portion still amounts to EUR 2.4 million on 30 September 2021. In view of the term of the interest swap over a number of years, the fair value depends on a number of factors including the future development of EURIBOR interest rates. The valuation is carried out on the basis of market data on the valuation date and using generally recognized valuation models. On the balance sheet date, the fair value amounts to KEUR 21 (previous year: KEUR 57), and this amount is recorded under other liabilities.

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

6.20.3 Financial risk management

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

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

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

Capital management is measured on the basis of net liquidity. The company management pursues the goal of achieving a continuous and sustainable increase in corporate value. The ratio of the equity to the balance sheet total (equity ratio) amounted to 43.0 % as at 30 September 2021 (previous year: 38.1 %).

A maximum level of indebtedness of 2.5 was agreed in the long-term loan contract of KPS AG. The formula for calculating the level of indebtedness is as follows: Net financial indebtedness / EBITDA. Compliance with the covenants is regularly monitored within the framework of capital risk management. In the business year 2020/2021, the maximum level of indebtedness was complied with.

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

6.20.4 Liquidity risk

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

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

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

Previous year	Book value	Payment obligations		
in KEuros	30.09.2020	2020/2021	2021/2022 to 2023/2024	2024/2025ff.
Financial liabilities	32,600	23,300	9,300	0
Leasing liabilities	28,725	4,763	10,173	14,804
Trade liabilities	7,009	7,009	0	0
Other liabilities	15,433	13,480	2,049	0
Liabilities from income tax	2,013	2,013	0	0

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

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

The following table shows the likely pay-outs arising from the interest swap for the subsequent periods.

30.09.2021

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

30.09.2020

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

6.20.5 Credit and default risks

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

No risk concentration was identified in the reporting year (previous year: one customer) pursuant to IFRS 8.34. The open receivable arising from this amounted to KEUR 2,238 in the previous year.

In operating business, receivables are monitored continuously. The impairment requirement is analysed on every balance sheet date on the basis of the impairment matrix in order to determine the expected credit losses. Furthermore, if notification of insolvency is received, receivables without any prospect of payment are impaired 100% or in accordance with the notified insolvency ratio. This analysis revealed that there were no significant impairments in the reporting year 2020/2021. The default risk analysis is carried out as part of a multifactorial and holistic analysis of the debtor and the financial instrument. As part of the assessment as to whether there is a significant increase in the default risk, KPS makes use of a number of tools including individual qualitative factors that are presented in IFRS 9 and that indicate insolvency of the counterparty. On 30 September 2021, there were no indicators of any risks extending beyond the booked impairments. If any payment obligation is in arrears by more than 30 days, the assumption of the significant increase in default risk needs to be refuted. This is carried out by verifications in the form of appropriate and robust information which verifies that it does not result from payment difficulties being experienced by the counterparty.

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

Business year

in KEuros	Neither overdue nor impaired	Overdue and not impaired	Impaired	30.09.2021
Contractual assets	6,070	0	0	6,070
Trade receivables	28,815	3,044	4,207	36,065
Other assets	1,840	0	0	1,840
Total	36,725	3,044	4,207	43,975

Previous year

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

Nominal amounts for receivables due of KEUR 4,207 (previous year: KEUR 4,209) are included in the impaired receivables which were impaired by KEUR 1,372 (previous year: KEUR 907).

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	30.09.2021
Other loans	0	0	0	0
Trade receivables	2,272	144	628	3,044
Other assets	0	0	0	0
Total	2,272	144	628	3,044

Previous year

in KEuros	less than 30 days	31 to 90 days	more than 90 days	30.09.2020
Other loans	0	0	0	0
Trade receivables	1,332	127	518	1,977
Other assets	0	0	0	0
Total	1,332	127	518	1,977

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

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

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

Trade receivables at 30.09.2021 – in days overdue

in KEuros	not overdue	1 - 30	31 – 60	> 60	Total
Impairment rate	0.55%	1.32%	1.53%	2.00%	
Estimated gross book value in case of default	27,249	2,272	522	250	30,292
Expected losses over the residual term	150	30	8	5	193

Trade receivables at 30.09.2020 – in days overdue

in KEuros	not overdue	1 - 30	31 – 60	> 60	Total
Impairment rate	0.07%	0.96%	3.72%	4.62%	
Estimated gross book value in case of default	24,767	1,357	127	870	27,121
Expected losses over the residual term	17	13	5	40	75

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

KEuros	2020/2021	2019/2020
Impairments as at 01. 10.	1,199	856
- Utilization/Release	-99	-38
Valuation adjustments on account of change in the default risk	494	527
Derecognitions	-29	-146
Impairments as at 30.09.	1,565	1,199

The valuation adjustments amounting to KEUR 494 (previous year: KEUR 527) relate to overdue receivables for which only a partial incoming payment is expected. This does not result from impaired creditworthiness of the debtor but from divergences in the invoicing of specific products or services. Owing to the ongoing legal dispute, a further addition to the impairment was made compared to the previous year. Out of the overdue and impaired receivables on 30 September 2021 in the amount of KEUR 4,207 (previous year: KEUR 4,209), KEUR 26 are from the business year 2020/2021 and KEUR 4,181 are from previous years. According to information received from the company lawyers, the claims of KPS AG are fully justified. All allowances relate to the Management Consulting/Transformation Consulting segment and were recognized as expense in the income statement.

In addition, unrecoverable receivables amounting to KEUR 29 (previous year: KEUR 146) were derecognized in the year under review 2020/2021. These also relate to the Management Consulting/Transformation Consulting segment and were recognized as expense in the income statement.

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

6.20.6 Market risks

Currency risks / Exchange rate risks

The companies of the KPS Group primarily conduct their business transactions in euros, Danish krones, British pounds, Swiss francs, Norwegian and Swedish kronas. The business activities transacted in British pounds, Swiss francs, Swedish and Norwegian kronas have only been of a limited nature. If the scope of business is extended, there will consequently be exchange rate risks in future. Since the development of the Danish krone is very stable, disclosure of a sensitivity analysis relating to the Danish krone has not been prepared.

Interest risks

As far as necessary, the Group is financed with short-term current account credit lines which are available for an unlimited period of time. The interest rates are regularly adjusted by the creditor. Short-term loans have also been taken out with an agreed fixed interest rate for a limited period of time. The company acquisitions carried out in the course of the reporting year 2017/2018 were financed by floating a loan with variable interest rate and a total term of five years. The resulting risk of increasing interest rates was reduced to 50 % by an interest swap. In the case of the interest swap in place, the KPS Group swaps fixed and variable interest payments which are calculated on the basis of the agreed nominal amounts. The fair value of the interest swap on the reference date is determined by discounting future payment flows using the interest structure curves on the reference date and the credit risk linked to the contract.

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

Price risks

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

Scenario Analysis

A scenario in which the planned EBIT in 2021/2022 is 15% higher would lead to an insignificant addition to the fair value of the earn-out obligation through profit or loss.

6.20.7 Leases

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

6.21 Leasing Agreements

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

Book value rights of use in KEuros	30.09.2021	30.09.2020
Buildings	20,683	22,956
Vehicles	1,370	1,487
Office equipment	4,612	4,536
Total	26,666	28,979

Additions to rights of use in KEuros	30.09.2021	30.09.2020
Additions	2,458	10,216
Total	2,458	10,216

Lease in KEuros	30.09.2021	30.09.2020
Short-term	4,620	4,590
Long-term	21,747	24,135
Total	26,367	28,725

6.21.1 Leasing Agreements

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

Depreciation in KEuros	01.10.2020-30.09.2021	01.10.2019-30.09.2020
Buildings	2,514	2,451
Vehicles	995	1,223
Office equipment	1,513	1,365
Total depreciation and amortization	5,022	5,039

Interest expense in KEuros	01.10.2020-30.09.2021	01.10.2019-30.09.2020
Interest expenses for leasing liabilities	159	154
Total interest expense	159	154

Practical remedies in KEuros	01.10.2020-30.09.2021	01.10.2019-30.09.2020
Expense for short-term leases	340	508
Expense for leases related to an asset value of low-value assets	0	0
Total	340	508

The total cash outflows shown in the cash flow statement for leases in the business year amount to KEUR 5,236 (previous year KEUR 5,441).

6.21.2 Extension and termination options

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

Critical judgements in determining the term of the leases

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

- If a termination option is exercised or an extension option is not exercised and the Group incurs significant costs in relation to the termination of the lease, e.g. relocation costs, it is generally deemed to be sufficiently certain that the agreement will not be terminated or extended.

- If installations have been carried out by the lessee that have a material residual value, it is generally deemed to be sufficiently certain that the Group will extend or not terminate the agreement respectively.

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

As at 30 September 2021, potential future cash outflows in the amount of KEUR 9,387 (previous year: KEUR 9,400) (undiscounted) were not included in the leasing liability because it was not sufficiently certain that the lease agreements are being extended (or not terminated).

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

7. EXPLANATIONS FOR THE CASH FLOW STATEMENT

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

The cash position analysed in the cash flow statement comprises all the current liquid funds reported in the balance sheet after deduction of current bank liabilities as part of the liquid funds. At the end of the period under review, this cash position amounts to KEUR 8,060 (previous year: KEUR 20,115). At the end of the period under review, current bank liabilities amounted to KEUR 17,300 (previous year: KEUR 23,300) and non-current bank liabilities amounted to KEUR 4,000 (previous year: KEUR 9,300).

The decreased net liquidity compared with the previous year is primarily due to increased net outflow from financial activities. This includes repayments of short-term and long-term finance credits. The cash outflow due to operating activities essentially results from the build-up of short-term assets and from tax payments. The cash outflows for investments into long-term tied assets amounted to KEUR -6,183 (previous year: KEUR -14,839) and primarily related to earn-out payments.

7.1 Inflow/outflow from operating activities

The cash flow on account of operating activities decreased by KEUR 4,660 from KEUR 22,040 to KEUR 17,380 compared with the previous year. This change primarily results from the increase in trade receivables amounting to KEUR 4,370.

7.2 Inflow/outflow from investment activities

The cash flow on account of investment activities changed by KEUR 8,656 from KEUR -14,839 to KEUR -6,183 . Apart from investments made in development work carried out on intangible assets developed in-house, earn-out payments were also made for company acquisitions during the business year

7.3 Inflow/outflow from financial activities

The change in cash flow on account of financial activities compared with the previous year by KEUR -26,313 to KEUR -23,253 (previous year: KEUR 3,060) results primarily from the repayment of long-term and short-term loans in the amount of KEUR 11,300, payment for the settlement of leasing liabilities in the amount of KEUR -5,077 and a dividend payment in the amount of KEUR -6,360 .

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

Business year

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

Previous year

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

8. EXPLANATIONS FOR SEGMENT REPORTING

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

A distinction is drawn between the following segments:

8.1 Management consulting / Transformation consulting

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

8.2 System integration

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

8.3 Products / Licences

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

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

Presentation by business areas in KEuros	Management consulting / Transformation consulting		System Integration		Products/ Licences		Other		Overall	
Earnings position	30.09.2021	prev. year	30.09.2021	prev. year	30.09.2021	prev. year	30.09.2021	prev. year	30.09.2021	prev. year
Sales	150,256	153,485	1,215	1,245	6,509	11,716	0	0	157,979	166,446
Production costs	-107,762	-108,001	-732	-785	-4,723	-8,549	0	0	-113,217	-117,335
Development costs	-4,407	-4,338	0	0	-166	-81	0	0	-4,572	-4,418
Operating costs	-9,109	-10,609	-38	-51	-409	-233	-8,987	-11,126	-18,543	-22,019
EBITDA	28,978	30,538	445	409	1,211	2,853	-8,987	-11,126	-21,647	22,674
Depreciation and amortization	-6,752	-7,304	-10	-15	-27	-96	-1,449	-1,154	-8,239	-8,569
EBIT	22,226	23,234	434	394	1,184	2,756	-10,436	-12,280	13,408	14,105
Interest	-57	-70	0	0	0	0	-916	-1,766	-973	-1,836
Taxes	-7,305	-4,847	-143	-82	-389	-575	3,430	2,561	-4,407	-2,942

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

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

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

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

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

Information on geographical areas

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

in KEuros	2020/2021	in %	2019/2020	in %
Germany	67,595	42.8%	83,622	50.2%
Scandinavia	34,387	21.8%	37,637	22.6%
United Kingdom	19,247	12.2%	12,529	7.5%
Switzerland	13,570	8.6%	8,268	5.0%
Benelux	12,936	8.2%	15,170	9.1%
Spain	9,988	6.3%	8,849	5.3%
Other	256	0.2%	371	0.2%
Total	157,979	100.0%	166,446	100.0%

Dependence on important customers

No major customer (previous year: one) in accordance with IFRS 8.34 is included in the segment "Management Consulting / Transformation Consulting". In the previous year, revenues of EUR 18.0 million were targeted.

9. OTHER EXPLANATIONS AND SUPPLEMENTARY INFORMATION

9.1 Liability relationships

The subordination existing in respect of KPS Consulting AG, Zurich, in the amount of KCHF, was cancelled in the current business year. The underlying liability was paid by KPS Consulting AG. The subordination with KPS Strategie- Prozess- und IT Consulting GmbH, Austria, in the amount of KEUR 100 and agreed in the business year 2019/2020 continues to exist. In addition, the subordination in favour of KPS Sweden AB in the amount of KEUR 400 is still in place. In the business year 2020/2021, a subordination in the amount of KEUR 6,000 was agreed with KPS Solutions GmbH.

KPS Services GmbH has issued a maximum amount guarantee of KEUR 40,000 (previous year: KEUR 30,000) to secure current-account and money-market credit lines. On the balance sheet date, current-account and money-market liabilities amounted to KEUR 12,000 (previous year: KEUR 18,000).

The company made a commitment for KPS Business Transformation GmbH, KPS digital GmbH, KPS Solutions GmbH, KPS Services GmbH and Infront Consulting & Management GmbH in the context of exemption in accordance with Article 264 Section 3 German Commercial Code (HGB) to guarantee all the existing obligations of these companies up to 30 September 2021 in respect of their creditors. This duty to assume liability is valid until 30 September 2022.

9.2 Acquisitions and establishments after the balance sheet date

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

9.3 Divestments and assets held for sale

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

9.4 Auditor fees

Fees amounting to KEUR 180 (previous year: KEUR 157) for the services provided by the auditor Baker Tilly GmbH & Co. KG, Wirtschaftsprufungsgesellschaft, Munich, are recognized as expenses for services in connection with auditing the financial statements. The fees for services in relation to auditing the financial statements mainly comprise remuneration for auditing the consolidated financial statements and for auditing the financial statements of KPS AG and their domestic subsidiary companies. Fees for audit-related services or other activities were only paid to Baker Tilly GmbH & Co. KG, Wirtschaftsprufungsgesellschaft, in the amounts indicated below.

in KEuros	2020/2021	2019/2020
Services for auditing the financial statements	180	157
Other confirmation services	0	0
Tax consulting services	0	0
Other services	147	0
Total	327	157

9.5 Related parties

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

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

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

9.5.1 Shareholders of KPS Business Transformation GmbH

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

Michael Tsifidaris: 9,080,050 shares

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

Leonardo Musso: 4,103,084 shares

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

Uwe Grünewald: 4,052,390 shares

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

Dietmar Müller: 3,813,359 shares

(previous year: 4,162,486 shares); voting rights of approx. 10.19 % (previous year: approx. 11.13 %)

The total remuneration of existing shareholders on account of existing contracts of employment with Group companies amounted to KEUR 1,524 (previous year: KEUR 1,380).

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

9.5.2 Executive Board

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

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

The total compensation of the Executive Board reported as expenses amounted to KEUR 578 (previous year: KEUR 455) in the business year 2020/2021, of which variable components amounted to KEUR 216 (previous year: KEUR 120). Compensation is comprised of fixed and variable components and they are due in the short term.

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

9.5.3 Extended management circle

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

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

Total compensation amounting to KEUR 21,114 (previous year: KEUR 19,406) was paid to the extended management circle.

A provision amounting to KEUR 1,073 (previous year: KEUR 2,736) 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 seven persons in the extended management circle.

9.5.4 Supervisory Board

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

Mr Tsifidaris and Mr Grünewald have contracts of employment with KPS Business Transformation GmbH. The expenses for the business year 2020/2021 amounted to KEUR 946 (previous year: KEUR 925) and include fixed and variable compensation elements.

9.5.5 Other related persons

Contracts of employment were in place with Ms Veronika König and Mr Robert Grünewald, children of Mr Uwe Grünewald (Member of the Supervisory Board) during the business year. The expenses paid in the course of the business year amounted to KEUR 3 (previous year: KEUR 7).

9.6 Governance bodies of the company

9.6.1 Executive Board

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

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

9.6.2 Supervisory Board

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

Mr Michael Tsifidaris (Chairman),

Authorized Signatory KPS Business Transformation GmbH, Hamburg,

Mr Uwe Grünewald, (Deputy Chairman)

Authorized Signatory KPS Business Transformation GmbH, Münster,

Mr Hans-Werner Hartmann,

Lawyer, Grassau-Mietenkam.

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

9.7 Loans granted to the Executive Board and the Supervisory Board

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

10. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after the balance sheet date.

11. CORPORATE GOVERNANCE

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

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

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

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

KPS AG, Unterföhring, draws up consolidated financial statements as the ultimate parent company as of 30 September 2021. These are published in the German Federal Gazette (Bundesanzeiger).

The following companies are included in these consolidated financial statements using full consolidation and make use of the exemption regulations pursuant to Article 264 Section 3, 264b German Commercial Code (HGB) in relation to disclosure and parts of the presentation in respect of their individual annual financial statements and the management report for the business year 2020/2021:

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

Unterföhring, 13 January 2022

The Executive Board
Leonardo Musso

KPS AG Group

DEVELOPMENT OF THE FIXED ASSETS (GROSS PRESENTATION)

		ACQUISITION OR PRODUCTION COSTS					ACCUMULATED DEPRECIATION					BOOK VALUE	
	in KEuros	**01.10.2020**	**Additions**	**Disposals**	**Transfers**	**30.09.2021**	**01.10.2020**	**Additions**	**Disposals**	**Transfers**	**30.09.2021**	**30.09.2021**	**30.09.2020**
I.) INTANGIBLE ASSTES													
1.	Concessions, industrial property rights and similar rights and assets, and licences in such rights and assets												
	a.) if acquired	13,737	69	0	0	13,806	10,506	1,071	0	0	11,577	2,229	3,231
	b.) if internally generated	14,556	1,275	0	0	15,831	3,692	1,741	0	0	5,433	10,398	10,864
2.	Advance payments made	0	0	0	0	0	0	0	0	0	0	0	0
3.	Goodwill	77,561	0	0	0	77,561	15,016	0	0	0	15,016	62,545	62,545
Intangible assets		**105,854**	**1,344**	**0**	**0**	**107,198**	**29,214**	**2,812**	**0**	**0**	**32,026**	**75,172**	**76,640**
II.) PROPERTY, PLANT AND EQUIPMENT													
1.	Business and office equipment	3,810	112	104	0	3,818	1,234	369	93	0	1,510	2,308	2,576
2.	Low-value assets	147	12	8	0	151	25	36	8	0	53	98	122
3.	Advance payments received	0	0	0	0	0	0	0	0	0	0	0	0
Property, plant and equipment		**3,957**	**124**	**112**	**0**	**3,969**	**1,259**	**405**	**101**	**0**	**1,563**	**2,406**	**2,698**
Total fixed assets		**109,811**	**1,468**	**112**	**0**	**111,167**	**30,473**	**3,217**	**101**	**0**	**33,589**	**77,578**	**79,338**

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

Pursuant to Article 33 Section 1 of the Securities Trading Act (WpHG), any shareholder who reaches, exceeds or falls below the thresholds of 3, 5, 10, 15, 20, 25, 30, 50 or 75 % of the voting rights of a company listed on the stock exchange must immediately inform the company and the Federal Financial Supervisory Authority (BaFin) of this, but at the latest within four trading days. As at 30 September 2021, the company was informed of the following shareholdings in accordance with Article 33 Section 1 Securities Trading Act (WpHG) and the shareholdings were published in accordance with Article 40 Section 1 Securities Trading Act (WpHG) (the corresponding percentage and voting-rights figures relate to the total number of voting rights at the time of the relevant notification and may therefore have changed in the meantime):

				Voting shares in percent(in absolute voting rights)			
Statutory notifier	Date of the publication in accordance with Article 40 WpHG	Date the threshold was reached	Reason for the notification	Art. 33 WpHG[2]	Art. 34 WpHG[3]	Art. 38 WpHG[4]	Art. 39 WpHG[5]
Grünewald, Uwe	04/01/2016	01/01/2016	End of the voting agreement (acting in concert) at the end of the day on 31.12.2015, falling below the thresholds of 75, 50, 30, 25, 20, 15 %	12,79% (4.349.143)	0	0	12.79%
Müller, Dietmar	17/10/2017	12/10/2017	Falling below the thresholds of 20. 15 %	10,46% (3.912.486)	0	0	10.46%
Musso, Leonardo	04/01/2016	01/01/2016	End of the voting agreement (acting in concert) at the end of the day on 31.12.2015, falling below the thresholds of 75, 50, 30, 25, 20, 15 %	12,92% (4.395.299)	0	0	12.92%
Tsifidaris, Michael	30/06/2017	28/06/2017	Falling below the threshold of 25 %	24,27% (9.080.050)	0	0	24.27%
Allianz SE	17/01/2018	21/12/2017	Voluntary Group notification on account of internal restructuring		6,68% (2.500.000)	0	6.68%
Union Investment Privatfonds GmbH	18/09/2018	12/09/2018	Undercutting the threshold of 3 %	0	2,93% (1.094.404)	0,07% (25.000)	2.99%

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

[1] Dr Thomas Krämerkämper fell below the threshold of 3% on 25 January 2018, i.e. in the business year 2018/2019, and is therefore no longer included in the disclosures below

[2] Share of the directly held voting rights

[3] Share of the attributed voting rights

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

[5] Aggregation of voting rights and instruments

DECLARATION BY THE LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the 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, 13 January 2022

The Executive Management
Leonardo Musso

ALTERNATIVE PERFORMANCE MEASURES FOR THE KPS GROUP

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

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

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

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

EBIT is calculated as follows:

Reconciliation calculation EBIT

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

EBIT margin is calculated from EBIT in relation to sales.

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

Reconciliation calculation EBITDA

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

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

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

Equity / Total capital x 100 = Equity ratio

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

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

<u>Operating cash flow</u>

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

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

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

<u>Cash flow from financial activities</u>

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

TRANSLATION OF THE INDEPENDENT AUDITOR'S REPORT

To KPS AG, Unterföhring

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

Audit opinion

We have audited the consolidated financial statements of KPS AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 30 September 2021, the consolidated statements of income and comprehensive income, the statement of consolidated changes in equity and the statement of consolidated cash flows for the financial year from 1 October 2020 to 30 September 2021, and the notes to the consolidated financial statements, including a summary of significant accounting and valuation policies. In addition, we have audited the group management report of KPS AG for the financial year from 1 October 2020 to 30 September 2021, which is combined with the management report of KPS AG.

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

- the accompanying consolidated financial statements comply, in all material respects, with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the supplementary requirements of German commercial law pursuant to § 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code], and give a true and fair view of the net assets and financial position of the Group as at 30 September 2021 and of its results of operations for the financial year from 1 October 2020 to 30 September 2021 in accordance with these requirements, and

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

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

Basis for our opinion

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

Key audit matters in the audit of the consolidated financial statements
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 October 2020 to 30 September 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

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

- impairment of goodwill
- impairment of deferred tax assets

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

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

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

Impairment of goodwill
Goodwill amounting to EUR 62.5 million is recognized in the consolidated financial statements reported in the balance sheet under "goodwill" thus representing about 39 % of the balance sheet total. The company allocates the goodwill to the relevant groups of cash generating units (CGU). Goodwill is assessed for impairment annually at the balance sheet date or as required by the company ("impairment test"). Basically, determined value in use is compared there to the carrying amounts of the respective group of CGUs. The basis for these assessments is regularly the cash value of future estimated cash flows of the CGU, to which the respective goodwill is attributable. The assessments are based on the forecast figures of the individual CGUs, depending on the management's approved financial planning. The discounting is made by means of the weighted average cost of capital (WACC) of the individual CGU. The result of that assessment is highly dependent on the legal representatives' estimates of future cash flows as well as on the discounting interest rate adopted and therefore subject to significant uncertainties. Hence, we consider that issue as a matter of most significance within our audit.

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

- We reproduced the methodical approach for performing the impairment tests and evaluated the WACC calculation.
- We made sure that the future estimated cash flows underlying the assessments and the discounting interest rates adopted are, as a whole, an appropriate basis for the impairment test of the individual CGUs.
- For our assessments we balanced inter alia general and sector-specific market expectations as well as extensive explanations of the management on the key value drivers of the planning and also relied on a comparison of those data with the current budgets of the planning approved by the Supervisory Board.
- Knowing that even little changes of the discounting interest rate may have major effects on the value in use established in this way we followed up the parameters used for determining the adopted discounting interest rates including the Weighted Average Cost of Capital (WACC) and retraced the company's calculation schedule.

- In addition, we performed further sensitivity tests for selected groups of 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.

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

Impairment of deferred tax assets
KPS AG exhibits deferred tax assets totalling EUR 4.6 million in its consolidated financial statements under "deferred tax assets", thereof EUR 3.3 million deferred tax assets due to tax loss carryforwards.

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

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

- Involvement of internal experts from the field of tax accounting in our audit team in the context of our audit of tax issues.
- Obtaining an understanding of the management's concept of the accounting process of deferred taxes.
- Evaluation of recognition and measurement of deferred taxes.
- Assessment of the impairment, as far as there were not enough deferred taxes, on the basis of the tax planning calculation of the legal representatives and valuation of the adequacy of the planning basis applied.

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

The company's disclosures on the deferred taxes are comprised in item 6.3 and 5.9 of the Notes.

Other information
The legal representatives are responsible for the other information. The other information is set out below:

- "The KPS Executive Board" and "KPS in the Capital Market 2020/2021" in the section "To the Shareholders" in the Annual Report,

- Group Declaration on Corporate Governance in section 7 of the combined Management Report 2020/2021,
- Disclosures on the Non-financial Group Declaration and Compliance Declaration in section 7 of the combined Management Report 2020/2021,
- Declaration by the Legal Representatives
- Alternative performance indicators used by the KPS Group.

The Supervisory Board is responsible for the following other information:

- "The KPS Supervisory Board" in the section entitled "To the Shareholders" in the Annual Report 2020/2021.

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

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

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

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

The legal representatives are responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the supplementary requirements of German law pursuant to § 315e (1) HGB, for the preparation of consolidated financial statements that give a true and fair view of the net assets, financial position and results of operations of the Group in compliance with these requirements. In addition, the legal representatives are responsible for such internal control as they determine necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting on a going concern basis, unless the management either intends to liquidate the Group or to cease operations, or has no realistic alternative to this course of action.

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and the group management report.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the group management report in order to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the assurance in accordance with § 317 (3b) HGB on the electronic reproduction of the consolidated financial statements and the group management report prepared for publication purposes

Opinion

We have performed assurance work in accordance with § 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file kpsag-2021-09-30-de.zip" SHA256: 918064101887B99A52AD32307C08FECB6F389FEC4F935BB60F18F17A6D752962 and prepared for publication purposes complies in all material respects with the requirements of § 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the abovementioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the abovementioned attached electronic file and prepared for publication purposes complies in all material aspects with the requirements of § 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the abovementioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 October 2020 to 30 September 2021 contained in the "Report on the audit of the consolidated financial statements and of the group management report" above.

Basis for the opinion

We conducted our assurance work on the reproduction of the consolidated financial statements and the group management report contained in the abovementioned attached electronic file in accordance with § 317 (3b) HGB and *Exposure Draft of the IDW Assurance Standard: Assurance in Accordance with § 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410).* Our responsibilities under that standard are further described in the "Group auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applied the requirements for quality control systems set forth in *IDW Standard on Quality Control: "Requirements for Quality Control in Audit Firms" (IDW QS 1)*.

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

The legal representatives of the company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with § 328 (1) Sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 (1) Sentence 4 No. 2 HGB.

In addition, the legal representatives of the company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 (1) HGB for the electronic reporting format, whether due to fraud or error.

The legal representatives of the company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and the audited group management report as well as other documents to be published to the operator of the Bundesanzeiger [German Federal Gazette].

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

Group auditor's responsibilities for the assurance work on the ESEF documents
Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 (1) HGB, whether due to fraud or error. We exercise professional judgement and maintain professional scepticism throughout the engagement. We also

- Identify and assess the risks of material non-compliance with the requirements of § 328 (1) HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of Delegated Regulations (EU) 2019/815, in the version valid as of the reporting date, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL Technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further information pursuant to Article 10 of the EU Audit Regulation
We were appointed as auditor of the consolidated financial statements by the Annual Shareholders' Meeting on 21 May 2021. We were engaged by the Supervisory Board on 16 September 2021. We have been the auditor of KPS AG, Unterföhring, without interruption since the audit of the consolidated statements for the financial year 2015/2016.

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

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

Munich, 19 January 2022

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

Hund	Weilandt
Auditor	Auditor

IMRPINT

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