KPS

# GROUP
# ANNUAL REPORT 2015/2016

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# Executive Board Interview

Interview partners: Dietmar Müller (Member of the Executive Board), Leonardo Musso (Member of the Executive Board)

Dietmar Müller CEO

Leonardo Musso CEO

*Mr. Müller/Mr. Musso, to what extent have the business results for the business year 2015/2016 met the original expectations that you started the year with?*

**Dietmar Müller:** As in recent years, we are very satisfied once again with how our performance has lived up to our planning. Outperforming the sales threshold of 140 million euros has even enabled us to significantly exceed the targets for the past business year. We achieved a gratifying increase of 19.9 % for the operating result before interest and taxes (EBIT) compared with the previous year, with an increase of 3.7 million to 22.3 million euros.

*What were the highlights in the business year 2015/2016 from your perspective?*

**Dietmar Müller:** The progress in implementing our strategy of internationalization and the consistent industrialization of our innovative consulting approach were undoubtedly the two most important highlights of the past year. We are delighted that we have been able to achieve these successes on the basis of our strategic decisions and the corresponding investment expenditure.

*Over recent years, KPS has enjoyed an extremely dynamic performance. However, with an increase in sales of 17.9 % KPS AG once again achieved faster growth than the market during the course of the business year 2015/2016. What is the secret of your success? What role does sector focus play in your business success?*

**Dietmar Müller:** Customers are confronted with the challenge of a dynamic development in the market that is unparalleled, as a result of increasing digitalization. Innovative concepts and new strategies have to be rolled out faster than ever before. Consulting partners have to rise to these challenges. We have know-how, processes and technologies based on our sector focus in our "toolbox". This enables our customers to roll out digital transformation projects fast. After projects have been successfully completed, clients are in a position to remain agile, and respond efficiently and rapidly to new challenges.

*The Research Advisory Board at the EHI Retail Institute in Cologne conferred an award on KPS in spring 2016 for its contribution to innovation and progress in retail. KPS received the accolade of "Top Supplier Retail 2016" and SAP granted the award of "SAP Gold Quality Award for Innovation" to one of your customers. What is the status of these awards as far as you are concerned?*

**Leonardo Musso:** We are very pleased that Europe's biggest and most important research and consulting institute for retail has conferred the prestigious Retail Technology Award Europe on KPS for development and implementation of innovative systems and technologies. We are also especially pleased about the award from SAP. This has been granted by SAP for what is currently one of the biggest transformation projects in retail, and we are rather proud of this as the responsible consulting partner.

*KPS is SAP Gold Partner, SAP Service and Channel Partner and one of the few SAP Hybris Platinum Partners worldwide. Can this close cooperation with the DAX Group also be considered an important competitive advantage for the acquisition of customers?*

**Leonardo Musso:** The various partnerships help us to be involved at a very early stage in the market leader's innovations, developments and solutions. We are able to assess these solutions strategically for the benefit of our customers, and to deploy them accordingly. As a long-standing partner of SAP, KPS has excellent references and comprehensive experience with SAP solutions, specifically in materials management, e-commerce and in digital customer management and marketing.

*The order backlog and order intake have been steadily expanded. With an estimated operational scope of some 18 months, they now significantly outperform the average for the sector. What exactly do you do better than the competition?*
Leonardo Musso: The consistent sector focus that we have already talked about combines with our innovative consulting approach to create a distinct profile that sets us apart from the competition. We empower our customers to roll out digital transformation projects within a very short space of time. Our implementation is better and more efficient. At the same time, we also give our customers the appropriate tools and agility to respond quickly to changes in the marketplace even after the project has been completed successfully.

*After the balance sheet date, KPS signed a purchase contract through its Danish subsidiary KPS Consulting A/S on 2 December 2016 to acquire all the shares in the Danish company Saphira Consulting A/S. What expectations do you have for this acquisition and what is the overall significance of the Scandinavian market for KPS?*
Leonardo Musso: In 2010, we were already active in the Scandinavian market and we have consistently expanded our presence over recent years. The acquisition of Saphira Consulting A/S represents a further logical step. Saphira Consulting is a highly qualified SAP consulting company operating in the Scandinavian market. The firm has an excellent portfolio of references, and in 2016 it was rated as one of the best IT Specialists in Denmark in the prestigious ranking compiled by the magazine Computerworld. The acquisition enables the KPS Group to continue expanding its leading market position in Europe as a consultant and service provider for transformation projects in the dynamic growth area of digitalization. We are in a position to provide even better local support for our existing customers, and we are also able to strengthen our sales and marketing activities to acquire new customers in Scandinavian countries.

*Alongside Scandinavia, the BENELUX region is another focus of your operations outside Germany. This will also be evidenced by the opening of a dedicated location in Amsterdam, in the Netherlands, during the business year 2016/2017. What is your expansion strategy abroad?*
Leonardo Musso: In 2016, we opened another office in Austria, one of the German-speaking areas of Europe. We also established our branch office on the east coast of the US in Arlington, Virginia. Many of our customers operate in the USA, and the global character of our projects requires a greater presence in the States. In 2016 and 2017, we are therefore pursuing a supporting program of sales and marketing activities at local level, in order to expand the level of awareness for KPS and to assist in exploiting the high market potential there. Additionally, we continued to intensify our sales and marketing activities throughout Europe.

*What are the opportunities and challenges for KPS AG in view of the increasing digitalization and verticalization in retail (and in logistics)?*
Leonardo Musso: Digitalization and new technological opportunities generate momentum for growth in retail. KPS is extremely well positioned for this owing to its market leadership in retail. Verticalization also takes manufacturers closer to consumers and the "point of sale" – a strong brand presence requires new cooperation and business models. These are currently being created, and they have to be implemented. This symbiosis between retail and industry yields new market opportunities for KPS. Wherever a company wants to be closer to consumers, or needs to be closer, our long track record of experience constitutes a competitive advantage.

*In 2016, KPS shareholders were privileged to enjoy free shares – each shareholder received one new share without any additional payment for every 10 shares held. Why have you decided to carry out this capital increase from company funds alongside the dividend payment of 0.30 euros per share?*
Dietmar Müller: As we explained at the ordinary Annual General Meeting held on 15 April 2016, we want to allow the shareholders to participate in the gratifying development of recent years. The very positive response from our group of shareholders has demonstrated to us that this decision was the correct one.

*Mr. Musso, effective 1 June 2017 you will be active as the sole Member of the Board of Management of the company for the foreseeable future. How is the second management tier structured at KPS AG to provide you with effective support for carrying out this function?*
Leonardo Musso: Over recent years, we have built up a strong second management tier. In 2015 and 2016, the areas of responsibility were redistributed to create an appropriate structure that positions the company correctly for external and internal challenges. This means we have a stable platform for driving successful development of KPS AG forward. However, one of our strengths is the capacity to work in "virtual" project structures. Our project managers therefore constitute an important part of the management and will be integrated into the strategic and operational decisions.

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

Michael Tsifidaris Chairman of the Supervisory Board



# Report by the Supervisory Board

Dear Shareholders,

The Supervisory Board provides information on its activity during the business year 2015/2016 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 all the functions allocated to it under legal regulations and the company statutes. During the past business year, it engaged intensively with the situation and perspectives of the company, and with a variety of specific issues in the course of discussions at ordinary meetings of the Supervisory Board and numerous informal meetings with the Executive Board, other members of the management, and employees. The management of the Executive Board was conscientiously and regularly monitored. Furthermore, advice was provided to the Executive Management in the context of the strategic ongoing development of the company and on decisions relating to important individual measures. The basis for monitoring and advice was provided by the monthly reports submitted by the Executive Board, and regular discussions in person and on the phone.

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

During the course of the business year 2015/2016, 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.

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.

**Supervisory Board meetings:** Alongside various informal meetings, the Supervisory Board convened for a total of four official meetings in the business year 2015/2016. The Members of the Supervisory Board were present in person at each of the meetings. There were also three teleconferences with all the Members of the Supervisory Board taking part. During each of the meetings, developments during the previous periods and the current business situation were explained, as well as individual segments and negative deviations from planning. The meeting held on 2 December 2015 focused specifically on the company's planning for the business year 2015/2016. The provisional income situation of the previous business year 2014/2015 was also analyzed. The Supervisory Board was able to review the plausibility of the figures submitted on the basis of the members' individual expertise and their knowledge of the company. The documents presented to them placed them in the position of being able to assess the situation of the company and to analyze any weaknesses such that the annual financial statements were approved and the consolidated financial statements were adopted at the subsequent Supervisory Board meeting held on 29 January 2016. In view of the business situation of the company, the outstanding quality of the bookkeeping, and the very thorough audit carried out by the auditor, the Supervisory Board refrained from carrying out any further audits, particularly since there were no indications that this was necessary.

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

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

**Corporate Governance:** The requirements of the German Corporate Governance Code constituted another important matter. The Executive Board and the Supervisory Board decided to adopt the recommendations of the German Corporate Governance Code with a few exceptions, which are related to the size of the company. The Executive Board and the Supervisory Board regard this as an important step toward transparency, corporate governance and control. On 30 January 2017 the Supervisory Board devoted time to regularly discussing the topic of corporate governance and passed a resolution on the new joint Declaration of Compliance of the Supervisory Board and the Executive Board pursuant to Article 161 Stock Corporation Law (AktG). This will be published permanently on the Internet pages of the company together with the old Declaration of Compliance. One of the exceptions to the Corporate Governance Code includes the fact that the Supervisory Board does not form additional (sub-)committees because of its size. The internal compliance issues within the Group were also regularly discussed and reviewed at the meeting referred to.

**Composition of the Supervisory Board:** During the past business year, the Supervisory Board had the following members.

During the period from 1 October 2015 to 30 September 2016:

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

No conflicts of interest were registered. Mr. Hans-Werner Hartmann is an independent member of the Supervisory Board who has expertise in relation to the areas of accounting and auditing of financial statements pursuant to Article 100 Section 5 Stock Corporation Law (AktG).



**Annual financial statements:** The auditing firm Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft mbH, Munich, appointed by the Annual General Meeting of last year, audited the bookkeeping, the annual financial statements of KPS AG and the consolidated financial statements including the management reports for the business year 2015/2016 and granted each of the documents an unqualified audit opinion. There are no doubts about the independence of the auditor, who submitted the required declaration of independence. The requirements of the German Corporate Governance Code regulating the terms of engagement between the company and the auditing firm have been complied with. The auditor has submitted a comprehensive report on the result of the audit, which was carried out on the complete annual financial statements of the Group and all its subsidiary companies. The annual financial statements of the Group and all the subsidiary companies were provided, as were the report on the audit of the consolidated financial statements and the audit of the individual financial statements of the joint-stock company (Aktiengesellschaft, AG). The auditor was also available to answer 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 and reported on the key results of the audit. 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 auditors. The Supervisory Board approved the annual financial statements of KPS AG drawn up by the Executive Board and the consolidated financial statements including the management report on 30 January 2017. The annual financial statements of KPS AG are therefore adopted. The Report by the Supervisory Board for the business year 2015/2016 was also approved in the course of these deliberations. The proposal for the appropriation of the profit submitted and explained by the Executive Board was agreed by the Supervisory Board after it had carried out its own audit and taking into account the earnings performance and financial situation of the company. The Supervisory Board considers the proposed dividend to be appropriate.

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

The Supervisory Board

Michael Tsifidaris
Chairman of the Supervisory Board

# Corporate Governance

On the basis of the recommendations of the German Corporate Governance Code, the Executive Board and the Supervisory Board of KPS AG resolved to implement and comply with the rules of the code taking into account the size of the company and the structure of the administrative bodies at KPS AG. This highlights the commitment of KPS AG to provide effective corporate governance as part of its culture. On 30 January 2017, the Executive Board and the Supervisory Board submitted the annual Declaration of Compliance on the recommendations of the Government Committee on the German Corporate Governance Code in the version dated 5 May 2015 pursuant to Article 161 of the Stock Corporation Law (AktG) and provided the shareholders with permanent access to the declaration on the company's website. The German Corporate Governance Code regulates the following areas of corporate governance and monitoring:

→ Shareholders and Annual General Meeting
→ Communication and transparency
→ Interaction between Executive Board and Supervisory Board
→ Composition and compensation of the Executive Board and the Supervisory Board
→ Accounting principles and audit of the financial statements.

## 1. SHAREHOLDERS' RIGHTS AND TRANSPARENCY

The shareholders of KPS AG provide the capital for the enterprise, and they bear the main burden of the entrepreneurial risk. The Executive Board, therefore, takes the interests of the shareholders particularly seriously by making transparency and prompt information for the shareholders a top priority. Great emphasis is placed on the observance of shareholders' rights, systematic risk management, compliance with stock exchange rules and participation of shareholders in fundamental decisions being taken by the company, as well as any changes to the company statutes, the issue of new shares and significant structural changes.

Equal treatment for all shareholders is guaranteed by the publication of all company information on the Internet. In particular, this includes ad-hoc releases and press releases. Managers' Transactions (formerly: Directors' Dealings) and all financial reports published by the company are also posted on the company's Internet site www.kps.com. A financial calendar is provided for the shareholders giving them information about all the important dates in the company's calendar.

## 2. EXECUTIVE BOARD AND SUPERVISORY BOARD

The interaction between the Executive Board and the Supervisory Board and the allocation of functions are defined in the relevant rules of procedure for the Executive Board and the Supervisory Board. These rules of procedure are continually reviewed for compliance with the regulations of the German Corporate Governance Code, and they are amended as necessary. Any deviations from the code, in particular the establishment of committees, depends on the size of the company or the structure or scope of the administrative bodies.

No member of the Executive Board is a member of a Supervisory Board outside the group of companies.

In view of the number of members of the Supervisory Board (three), no committees are formed.

The D&O insurance for the Members of the Supervisory Board of KPS AG does not include a deductible, although the German Corporate Governance Code provides for this. The motivation and the high level of responsibility with which the members of the governance bodies currently carry out their functions are not influenced or reduced as a result of the fact that a D&O insurance has been agreed without a deductible.

The Supervisory Board has established that it contains an adequate number of independent members. The period of office for members of the Supervisory Board ends with the ordinary Annual General Meeting which follows the end of the business year 2017/2018.





The Supervisory Board regularly reviews the efficiency of its activity. The object of the efficiency review is specifically the procedural processes in the Supervisory Board and the flow of information between the Supervisory Board and the Executive Board, and the factually adequate flow of information to the Supervisory Board. In view of the size of the company and the smooth-running flows of information between the Supervisory Board and the Executive Board, the efficiency review was carried out in critical and constructive discussions without the presence of an external adviser. The assessment came to a positive result. If deficits in efficiency emerged during the year, they were swiftly remedied.

### a. Share ownership of the Executive Board and Members of the Supervisory Board

The Executive Board and the Supervisory Board were in possession of the following KPS shares at the end of the business year 2015/2016:

| | | |
|---|---|---|
| Michael Tsifidaris | 10,543,382 | 28.18 % |
| Dietmar Müller | 9,316,884 | 24.90 % |
| Leonardo Musso | 4,834,751 | 12.92 % |
| Uwe Grünewald | 4,784,057 | 12.79 % |

### b. Transactions in shares and rights (Managers' Transactions, formerly Directors' Dealings)

Between 30 September 2015 and 30 September 2016, no managers' transactions were carried out by members of the Executive Board or the Supervisory Board of KPS AG.
Neither the members of the Executive Board nor the members of the Supervisory Board are in possession of options for KPS AG.

### c. Conflicts of interest

Neither the Supervisory Board nor the Executive Board reported any conflicts of interest during the year under review. Any consultancy and service or works contracts of a member of the Supervisory Board with the company require the consent of the Supervisory Board. Alongside their activity on the Supervisory Board, Mr. Michael Tsifidaris, Mr. Uwe Grünewald, and Mr. Hans-Werner Hartmann are also active for the company as consultants or business developers. In this capacity, Mr. Tsifidaris and Mr. Grünewald have concluded a contract as authorized signatories (Prokuristen) with KPS Business Transformation GmbH.

### d. Compensation report

The principles for compensation have not changed by comparison with the business year 2014/2015 The compensation for the Executive Board is not broken down on an individual basis nor is the compensation reported separately detailing monetary and other components.

#### aa) Executive Board

The total payments made to the Executive Board for its activity at KPS AG during the business year amounted to 1,250 (previous year 680) KEuros.

#### bb) Supervisory Board

The payments made to the members of the Supervisory Board for their activities on the Supervisory Board amounted to 55 (previous year: 55) thousand euros. The payments made to the Members of the Supervisory Board in KPS Business Transformation GmbH amounted to 1,221 (previous year: 1,222) thousand euros.

## 3. ACCOUNTING PRINCIPLES AND AUDITING OF THE FINANCIAL STATEMENTS

During the business year, the company published information about current business performance in voluntary interim reports and the half-year financial report. When it publishes annual financial statements and interim reports, KPS AG bases them on the statutory periods of 120 and 60 days in order to achieve effective publicity.

C. GOVERNANCE _MANAGEMENT REPORT _INCOME STATEMENT _EARNINGS _BALANCE SHEET _CAPITAL _NOTES _DEVELOPMENT _NOTIFICATION _AUDITOR 15

## DECLARATION BY THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD OF KPS AG ON THE RECOMMENDATIONS OF THE "GOVERNMENT COMMITTEE OF THE GERMAN CORPORATE GOVERNANCE CODE" ("COMPLIANCE DECLARATION")

The Executive Board and the Supervisory Board of KPS AG declare pursuant to Article 161 Stock Corporation Law (AktG) that since the submission of the last Declaration of Compliance in January 2016, the recommendations of the German Corporate Governance Code ("Code") in the current version dated 5 May 2015 have been complied with subject to the following exceptions, and furthermore that they will be complied with in the future:

**Section 3.8 Sub-section 3:** The D&O insurance for the Supervisory Board does not have a deductible. In the opinion of the Executive Board and the Supervisory Board, the agreement of a voluntary deductible is neither appropriate nor necessary to guarantee that the members of the Supervisory Board fulfill their obligations in accordance with the defined requirements.

**Section 4.1.5:** The Executive Board expressly welcomes all efforts which act against discrimination for reasons of gender and on any other grounds and promotes diversity as appropriate. When making appointments to management positions in the company, the decisions of the Executive Board are governed solely on the basis of the qualifications held by the candidates, and it does not equate gender with any primary relevance for decision-making in this connection. The Executive Board has defined target parameters and deadlines for achieving goals for the proportion of women in the two management tiers below the Executive Board. These are published in the Declaration on Corporate Governance.

**Section 4.2.2 Sub-section 2:** The Supervisory Board does not use the ratio of compensation of the Executive Board to the compensation for the senior management and the workforce overall in relation to the issue of what level of compensation is appropriate for the Executive Board, neither is the development over time taken into account. Accordingly, the Supervisory Board does not lay down how the senior management and the relevant workforce should be defined. The corresponding recommendation of the Code appears to be not very practical and furthermore is not appropriate for guaranteeing that the compensation for the Executive Board is appropriate in every case.

**Section 4.2.3 Sub-section 2:** The variable compensation for the Executive Board does not take into account any negative developments such that real losses of income can actually occur. Given the structure of the compensation for the Executive Board, this does not appear to be necessary to ensure that the Executive Board does not enter into any inappropriate risks in the course of managing the company.

**Section 4.2.3 Sub-section 4:** The contracts for the Executive Board do not have a severance-pay cap to cover the case of premature termination of the contract. Such a rule does not appear necessary in addition to the conditions applicable under statutory regulations in the case of premature termination of contracts for the Executive Board in order to safeguard the interests of the company and its shareholders.

**Section 4.2.3 Sub-section 6:** The Chairman of the Supervisory Board has not informed the Annual General Meeting about the principles of the compensation system, and their amendment. The information provided in the annual financial statements was regarded as adequate.

**Section 4.2.4 and 4.2.5:** On 28 March 2014, the Annual General Meeting of KPS AG resolved with the necessary majority no longer to publish the information pursuant to Article 286 Section 5 German Commercial Code (HGB), Article 285 sentence 1 no. 9 letter a) sentence 5 to 9 German Commercial Code (HGB) and pursuant to Article 314 Section 2 sentence 2 German Commercial Code (HGB), Article 314 Section 1 no. 6 letter a) sentence 5 to 9 German Commercial Code (HGB). Against this background, the compensation system will also not be explained in the compensation report. This report does not contain any information on the type of fringe benefits.

**Section 5.1.2 Sub-section 1:** The Supervisory Board expressly welcomes all efforts which act against discrimination for reasons of gender and on any other grounds and promotes diversity as appropriate. When making appointments to the Executive Board, the decisions of the Supervisory Board are governed solely by the specific individual competence and qualification, other characteristics such as gender or nationality have not been relevant to this decision and will not be applicable in the future. Target parameters and deadlines relating to the proportion of women on the Executive Board and for the achievement of the target parameters have been defined which are published in the Declaration of Corporate Governance.

**Section 5.1.2 Sub-section 2:** The Supervisory Board has not defined any age limit for the Members of the Executive Board. The definition of an age limit for the Members of the Executive Board is not in the interests of the company and its shareholders since there is no compelling connection between a specific age of a Member of the Executive Board and their performance.

**Section 5.3:** No committees are formed in view of the number of Members of the Supervisory Board (three).

**Section 5.4.1 Sub-section 1 and Sub-section 2:** The composition of the Supervisory Board is presently such that the principles of diversity and potential conflicts of interest are taken into account. In view of the statutory regulations defined in the Stock Corporation Law, which describes in Article 100 Stock Corporation Law (AktG) the personal requirements for the activity as a Member of the Supervisory Board and in Article 111 Stock Corporation Law the functions of the Supervisory Board and therefore also simultaneously defines in the same way as the Code the targets for the re-election of the Supervisory Board, the Supervisory Board has refrained from designating concrete targets for the composition when the Supervisory Board is re-elected. The Supervisory Board regards as problematic the definition of an age limit for membership of the Supervisory Board based on the General Equality Law and will not provide such a definition. The Supervisory Board has defined target parameters and deadlines for the attainment of the target parameters which are published in the Declaration on Corporate Governance.

**Section 5.4.1 Sub-section 5:** The Supervisory Board does not disclose the personal and social relationships of each candidate for the company, the governance bodies of the company and a shareholder with a major interest in the company when it submits proposals for election to the Annual General Meeting. In the opinion of the Supervisory Board, the recommendation of the Code entails not insubstantial risks, and the Supervisory Board believes that complying with them would therefore not be in the interests of the company.

**Section 7.1.2:** The consolidated financial statements as at 30 September of each business year are not published within 90 days but within 120 days of the end of the relevant reporting period. The interim report is not published within 45 days but within 60 days of the end of the reporting period.

Unterföhring, January 2017

**KPS AG**

| The Executive Board | The Supervisory Board |
|---|---|
| Dietmar Müller | Michael Tsifidaris |
| Leonardo Musso | Uwe Grünewald |
| | Hans-Werner Hartmann |



KPS

KPS GROUP

# MANAGEMENT REPORT 2015/2016

# 1 BUSINESS REPORT OF THE KPS GROUP

## 1.1 Macroeconomic development and framework conditions

**Global economy expands at a slower pace**

According to the forecasts of the most important German-based economic research institutes, the global economy only expanded at a rate of 2.3 % in 2016. Although the economy experienced an upswing in the second half of the year, overall expansion was significantly slower than the figure of 2.7 % in the previous year. While dynamic economic performance stabilized in the emerging economies, the situation in the advanced economies deteriorated during the first half of the year. This was against the backdrop of a monetary and financial policy that continued to expand vigorously in the face of structural obstacles and political uncertainties arising from global tensions. Although unemployment rates came down slightly in the USA, in the eurozone, and in Japan, employment underwent a greater rise than production. Productivity therefore declined in all three economic zones. In contrast, stabilization of prices for raw materials and consolidation of the economy in China improved prospects in the emerging economies. However, experts anticipated only moderate growth in emerging economies given the influence of low dynamic performance in the advanced economies and structural problems in the emerging markets.[1]

Starting from a low level in the first half of 2015/2016, the pace of economic development in the global economy only picked up slightly in the second half of the year, although there was an upswing during the summer of 2016. The expected recovery initially failed to materialize in the United States, and production only started to gather pace after a weak first half year. The indicator used by the Institute for the World Economy (IfW) to reflect global economic activity is calculated on the basis of sentiment indicators from 42 countries. This indicator signaled dynamic performance continuing at a low level in the third quarter of 2016.[2] Further expansion in the advanced economies is likely for the fourth quarter of 2016 albeit at a slower pace – and this will continue to be driven by private consumption.[3]

## 1.2 Development in the eurozone

**Moderate expansion in the eurozone**

After moderate expansion of gross domestic product in the eurozone was primarily driven by private consumption at the beginning of the year, the expansion of production as the year progressed was powered by an increase in exports to the USA and Japan. The economic institutes participating in the joint forecast anticipate growth in macroeconomic production of 1.6 % in the year 2016. This is also reflected through a sustained decline in the unemployment rate to 10.1 % on average for the year. As a result of the fall in energy prices at the beginning of the year, the average rate of inflation in the eurozone will remain at a low 0.2 %.[4]

Following on from modest economic development in the eurozone during the first half year of 2016, no change in pace is anticipated for the second half of the year. The sustained high dynamic performance of employment holds out the promise of a continuation of the recovery in the eurozone. However, increasing incomes in private households may continue to favor consumption. The eurozone will also gain momentum from a slow increase in dynamic performance for the global economy, and the favorable financial conditions coupled with a financial policy focused on ongoing expansion. The emphasis here is on easing the burdens placed by taxes and deductions on earned income. Additional stimuli will primarily be generated in Germany as a result of the expansion of government spending.[5]

## 1.3 Development in Germany

**Continuation of the moderate upswing**

The German economy continued to gain traction with a moderate upswing through stronger utilization of overall capacities in 2016. Gross domestic product in Germany is likely to have grown overall by about 1.9 % year on year by comparison with 2015. Growth drivers were the service sectors and the construction industry accompanied by a strong increase in employment. Notwithstanding the integration of refugees and migration from countries in the European Union into the employment market, the joint forecast anticipated an average unemployment rate of 6.1 % in Germany for the year. The employment market was therefore revealed to be in very good shape overall. Private consumption expanded on the back of the buoyant job market, stable wage development and low rates of price increase. However, government spending also increased with the influx of refugees. A very low inflation rate of 0.4 % was forecast owing to the fall in the oil price at the beginning of the year.[6]

Although gross domestic product continued to undergo strong expansion overall during the first half of 2016, a slowdown in the upturn became increasingly evident in the second and third quarters. Only the service sectors and the construction industry were able to continue posting sustained expansion. Production is likely to have risen again during the fourth quarter.[7]

## 1.4 Sector-specific development

**Digital transformation as a growth driver in the consulting sector**

Sales of the consulting sector in Germany rose by 6.6 % in 2015 to the record value of 27.0 billion euros. German management consultants were, therefore, able to look back on a successful business year.[8] German consultants also started the year 2016 with an optimistic outlook. According to the business climate survey carried out by the Federal Association of German Management Consultants (BDU) in the third quarter of 2015, around three-quarters of the market players gave a positive assessment of growth and only 10 % of consultants gave a skeptical assessment of their own business development. The BDU Business Climate Index drawn up by the Federation Association of German Management Consultants represents a combination of the current business situation and business prospects, and at 32.7 points, the index rose to its highest level since 2014. Digital transformation is credited as the growth driver for the consulting sector. This process puts the business models of all companies to the test. This, in turn, creates new specialties in the consulting market, including the development of digital business models and provision of solutions for harvesting relevant information from big data. Market players assess this as a continual process of change in consulting. According to the BDU, 84 % of management consultants expect that digitalization will bring about huge changes in service portfolios, business models and processes for management consulting over the coming years. However, digitalization is not simply a matter for the customers of management consulting firms. Consultancies can also see great potential for their own businesses to significantly increase efficiency and replicability by making use of software tools and opportunities for analysis. More than three-quarters of management consultants regard software solutions and the associated services as a growth field that will account for a significant proportion of sales in the future.[9]
After three setbacks in succession, sentiment in the German management consulting business only improved again in the second half of 2016. The index rose by 7.5 points to 28.0 points in the business climate survey for the third quarter of 2016 carried out by the Federal Association of German Management Consultants. 40 % of management consultants described the current business situation as good, and 44 % regarded it as satisfactory. IT consultants gave the most positive assessment of the current situation. As far as client sectors are concerned, the primary growth drivers in consulting are the consumer goods industry, manufacturing industries and the sectors of telecommunications, information technology, media, entertainment, and sport. 38 % of consulting firms anticipate a further improvement in business prospects for the winter half year of 2016/2017, while just 6 % express a skeptical outlook on business development. Strategy and IT consultants are particularly optimistic about future development. An increase in demand for consultancy is expected in particular from the consumer goods industry, automotive manufacture, and engineering. This development of the economic indicator for the consulting sector used by the Federal Association of German Management Consultants (BDU) is tracking the rise of the economic barometer for the entire German economy surveyed by the ifo Institute for Economic Research. In September 2016, the ifo Business Climate Index rose more sharply than had been expected.[10] An increase in sales of 7.5 % is anticipated for the market as a whole in 2016.[11]

## 1.5 Market position of the KPS Group within the sector

**Leading in transformation**

After domestic consulting firms have also been playing an increasingly important role in Germany, digitalization topics are currently influencing the perspective on the competition. This meant that the subsidiary companies of the big multinational management consulting groups were once again in the ascendant in 2016 and took

1 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2016/gdherbst2016_langfassung.pdf
2 https://www.ifw-kiel.de/pub/kieler-konjunkturberichte/2016/kkb_21_2016-q3_welt_de.pdf
3 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2016/gdherbst2016_langfassung.pdf
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8 http://www.bdu.de/media/174316/ergebnisse-marktstudie-unternehmensberatung-2016.pdf
9 http://luenendonk.de/pressefeed/luenendonk-liste-2016-die-top-10-der-deutschen-managementberatungen
10 http://www.bdu.de/media/239348/geschaeftsklimabefragung_herbst2016.pdf
11 http://www.bdu.de/media/174316/ergebnisse-marktstudie-unternehmensberatung-2016.pdf

the top three slots in the ranking of most important competitors in the national environment. Digitalization is the reason for the change in this area over the past year. This is because international consulting firms are perceived as holding specific expertise in this area. Expertise is demonstrated through communication on digitalization topics. The Top 10 German management consulting firms are competing nationally with the so-called big 4 companies.[12]

In 2015, the Top 10 German management consulting firms achieved total sales of 1.7 billion euros within Germany and abroad. This represented an increase of 6.6 % compared with the previous year. This result was generated with a workforce of some 7,250 employees. It represented an increase of 5.7 % compared with 2014. Sales generated by consulting services in Germany therefore rose by 9.4 % to 1.2 billion euros as a result of the overall economic situation. The businesses of client companies consequently developed dynamically and capital expenditure increased. Digitalization and its impacts on client companies and their business models also drove the demand for consulting. The ten leading management consulting firms based in Germany benefited from these framework conditions. Seven out of ten consulting firms experienced growth, and three of these companies grew by more than 15 %. A study on management consulting in Germany carried out by market research company Lünendonk in 2016 ranked the KPS Group among the Top 5 German management consulting firms. The Group therefore improved its ranking by a further place compared with the previous year. Overall sales performance is projected to continue developing dynamically in 2016. Lünendonk predicts that management consulting firms can anticipate a further double-digit increase in their sales by more than 10.8 % in the wake of the anticipated client-side budget development. The topics of big data, business analytics, and Industry 4.0 are viewed as strong sales drivers.[13 14] Consultants in Germany are only anticipating growth of 5.8 % for the consulting market itself. Sales growth in the double-digit range is therefore achieved through the acquisition of market shares from competitors. In 2015, the workforce at KPS went up by 11.7 % and the Group was therefore ranked among the Top 5 German consulting firms that increased the number of their employees by more than 10 %. In 2016, recruiting qualified staff continued to be a top priority for management consulting firms which are on average planning to recruit an additional 20 % of the current total workforce.[15 16 17]

### 1.6 Key lines of business/ methodological expertise

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

### 1.7 Service and sales areas

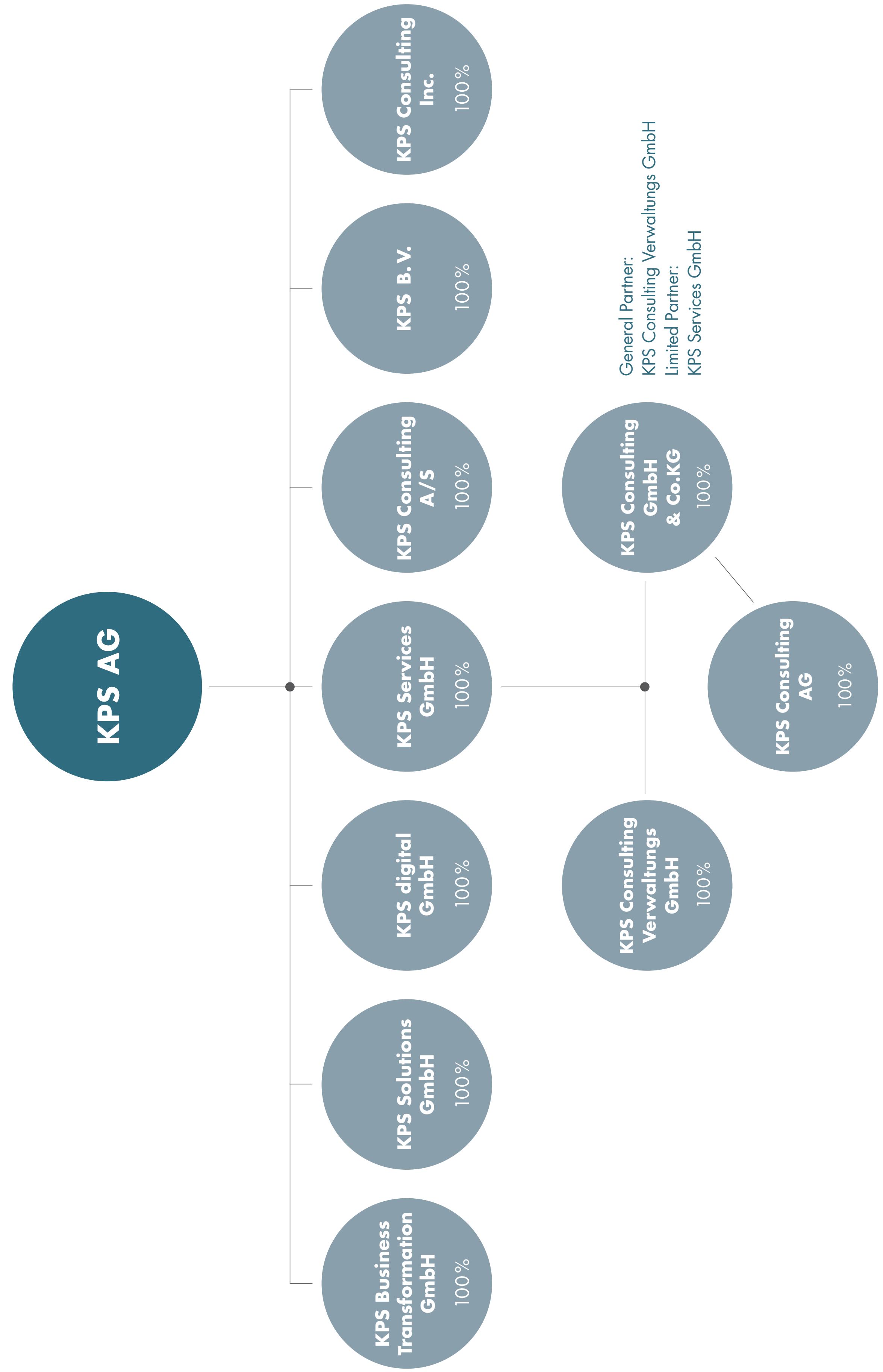
KPS is one of the most successful companies for business transformation consulting and process optimization. KPS is a leading management consulting firm in Europe with a sales volume of around 145 million euros. Market research company Lünendonk ranks KPS among the top 5 consulting firms in Germany and the top 25 on the international scene. The expansion of KPS into the leading-edge management consulting company for retail and the consumer goods industry consequently continued in the year under review. KPS has first-class client references in the area of retail and the consumer goods industry, in the process and manufacturing industries, and with service companies. Successfully structuring changes while simultaneously ensuring optimum value for money defines the high quality of consultancy which generates significant benefits for our customers.

12 http://luenendonk.de/pressefeed/internationale-beratungsunternehmen-praegen-den-deutschen-consulting-markt
13 http://luenendonk.de/pressefeed/luenendonk-liste-2016-die-top-10-der-deutschen-managementberatungen
14 http://luenendonk.de/pressefeed/neu-luenendonk-studie-2016-managementberatung-in-deutschland
15 http://luenendonk.de/pressefeed/neu-luenendonk-studie-2016-managementberatung-in-deutschland
16 http://luenendonk.de/pressefeed/internationale-beratungsunternehmen-praegen-den-deutschen-consulting-markt
17 http://luenendonk.de/pressefeed/luenendonk-liste-2016-die-top-10-der-deutschen-managementberatungen





STRUCTURE OF THE KPS GROUP



C.GOVERNANCE_MANAGEMENT REPORT_INCOME STATEMENT_EARNINGS_BALANCE SHEET_CAPITAL_NOTES_DEVELOPMENT_NOTIFICATION_AUDITOR 23

### 1.8 Consultation and service portfolio

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

### 1.9 Order backlog

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

The average rates of utilization capacity for KPS Consultants have stabilized over the entire business year 2015/2016 at the very high level of virtually 100 %. This once again matched the already excellent capacity utilization in the reporting period 2014/2015.

In a sector comparison, KPS is operating among the absolute leading field of consultants with this rate of capacity utilization.

### 1.10 Investment and financing sector

In the business year under review, no notable investments were initiated which exceeded the planned business scope. Development costs amounting to 1,468 (previous year: 0) thousand euros were invested, essentially processing streams for SAP costing 1,437 thousand euros.

No company acquisitions were actioned in the business year 2015/2016.

### 1.11 Sales, results of operations and financial position

#### 1.11.1 Overview of sales, results of operations and financial position

Overview of the sales, results of operations and financial position of the KPS Group:

| in euros | 2015/2016 | 2014/2015 |
|---|---|---|
| Group sales | 144.9 million | 122.9 million |
| EBITDA | 23.3 million | 19.6 million |
| EBIT | 22.3 million | 18.6 million |
| Group earnings | 19.3 million | 18.0 million |
| Earnings per share | 0.55 | 0.53 |
| Cash and cash equivalents | 12.6 million | 6.5 million |
| Financial liabilities | 0.0 million | 0.0 million |

#### 1.11.2 Group structure

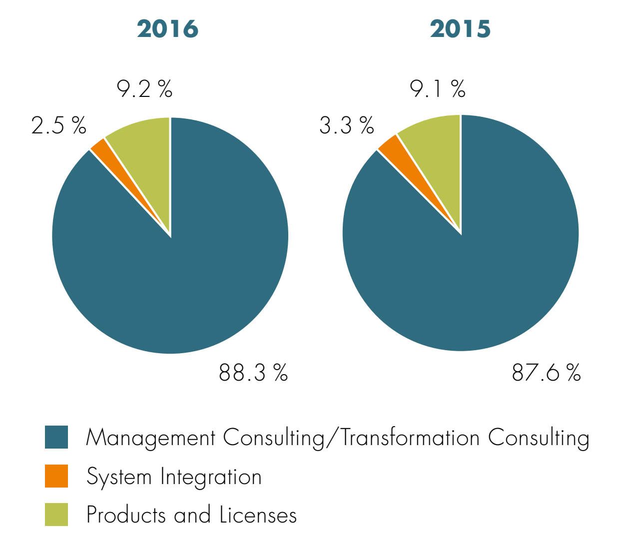
KPS AG is the legal parent company of the KPS Group which operates in Germany, the USA and European countries outside Germany through legally independent subsidiary companies.

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.

#### 1.11.3 Business development by segments and regions

##### 1.11.3.1 Business development by segments

The structure of sales on the basis of reportable segments has only changed slightly compared with the previous year. 88.3 % (previous year: 87.6 %) of the sales were generated in the segment Management Consulting/Transformation Consulting. 2.5 % (previous year: 3.3 %) of the sales were generated in the segment System Integration. 9.2 % (previous year: 9.1 %) of the sales originate from business with products and licenses.




##### 1.11.3.2 Business development by regions

The breakdown of revenues by regions yields the following picture for the business year 2015/2016: Germany was the sales mainstay with 121.1 million euros or 83.6 %, followed by Switzerland with a volume of 12.6 million euros or 8.7 %. This is followed by the Scandinavian region with 9.3 million euros or 6.4 %. The remaining revenues amounted to 1.9 million euros or 1.3 % and were largely generated in the other EU countries.

#### 1.11.4 Results of operations, financial position and net assets of the KPS Group

##### 1.11.4.1 Results of operations of the KPS Group

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

**Income statement of the KPS Group in accordance with IFRS (abbreviated version)**

| in KEuro | 2015/2016 | restated 2014/2015 |
|---|---|---|
| Revenues | 144,933 | 122,915 |
| Own work capitalized | 1,468 | 0 |
| Other operating income | 850 | 956 |
| Cost of materials | -59,889 | -51,979 |
| Personnel expenses | -47,505 | -39,537 |
| Other operating expenses | -16,601 | -12,734 |
| Depreciation and amortization | -997 | -1,036 |
| Operating result (EBIT) | 22,259 | 18,585 |
| Financial result | -90 | -430 |
| Earnings before income taxes (*) | 22,169 | 18,155 |
| Income taxes | -2,893 | -113 |
| Earnings after income taxes | 19,276 | 18,042 |

*corresponds to the result from ordinary business activities



KPS

**Revenues**

Revenues rose by 17.9 % to 144.9 (previous year: 122.9) million euros in comparison with the previous year. The result therefore significantly exceeded the original expectations of 140 million euros. This is primarily due to the acquisition of transformation projects with prestigious customers from retail and the consumer goods industry.

One major client is included in the "Management Consulting/ Transformation Consulting" segment (previous year: three) in accordance with IFRS 8.34, and the revenues generated amount to 56.3 (previous year: 38.9) million euros.

**Own work capitalized**

Own work capitalized amounted to 1.5 (previous year: 0.0) million euros over the course of the business year under review. This relates to intangible assets developed in-house (development costs).

**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, and commission income. Overall, other operating income decreased year on year by 11.1 % to 0.9 (previous year: 1.0) million euros during the year under review.

**Cost of materials**

During the period under review, the cost trend adjusted appropriately to business performance, taking into account the respectable increase in sales. The project-related cost of materials, which primarily includes the costs for subcontracted services, went up by 8.0 million euros (+15.4 %) from 52.0 million euros to 60.0 million euros. The expenses for purchased hardware and software at 1.2 (previous year: 3.2) million euros fell back significantly compared with the reporting period 2014/2015. The main reason for the fall was because KPS also supplied software as a commercial product, during a project in the previous year. Owing to this one-off effect, the value for the previous year was correspondingly high.

**Personnel expenses**

Personnel expenses amounted to 47.5 (previous year: 39.5) million euros and these expenses increased by 8.0 million euros (+ 20.3 %) compared with the equivalent year-earlier reporting period. At the end of the business year 2015/2016, 417 employees were working in the KPS Group (previous year: 354). The growth in the workforce is due to the increase in the number of new appointments made during our ambitious expansion of the workforce during the reporting period.

**Other operating expenses**

Other operating expenses increased by 30.7 % to 16.6 (previous year: 12.7) million euros compared with the equivalent year-earlier reporting period. They mainly include travel expenses and vehicle operating costs amounting to 7.1 (previous year: 5.7) million euros, legal, auditing and capital-market costs at 1.1 (previous year: 0.9) million euros, non-project-related subcontracted services at 2.0 (previous year: 1.5) million euros, and premises and operating costs at 2.4 (previous year: 1.9) million euros.

**Depreciation and amortization**

Depreciation and amortization at 1.0 (previous year: 1.0) million euros remained virtually the same compared with the equivalent year-earlier period, and they are mainly due to additions in business and office equipment at KPS digital.

**Financial result**

The financial result of the Group rose to -0.1 (previous year: -0.4) million euros. Interest expense for the business year 2015/2016 mainly includes interest for disputed tax arrears payments of a subsidiary company amounting to 0.1 million euros.

**Income taxes**

The total amount of taxes on income and earnings amounting to 2.9 (previous year: 0.1) million euros includes current expenses for corporate income tax, solidarity surcharge, and trade tax amounting to 2.6 (previous year: 1.9) million euros, and expenses from deferred taxes amounting to 0.3 (previous year: income of 1.8) million euros.

**Earnings after income taxes**

The consolidated income for the period under review rose from 18.0 million euros by 7.2 % to 19.3 million euros.

### 1.11.4.2 Calculation of EBIT

EBIT increased from 18.6 million euros in the previous year by 3.7 million euros to a gratifying 22.3 million euros during the business year 2015/2016. Compared with the equivalent year-earlier period, the increase amounted to 19.9 %.

Based on sales of 144.9 (previous year: 122.9) million euros, the EBIT margin of 15.4 % was at virtually the same level as in the previous year at 15.1 %.

The EBIT of 22 million euros planned in the previous year was therefore achieved.

### 1.11.4.3 Calculation of EBITDA

EBITDA also improved significantly by 3.7 million euros from 19.6 million euros in the previous year to 23.3 million euros in the business year 2015/2016. Compared with the equivalent year-earlier period, the increase therefore amounted to 18.9 %.

Based on sales of 144.9 (previous year: 122.9) million euros, the EBITDA margin at 16.1 % underwent a slight increase from 15.9 % compared to the year-earlier value.

### 1.11.4.4 Adjusted earnings per share

The diluted and basic earnings per share amount to 0.55 (previous year: 0.53) euros. The calculation of earnings per share in accordance with IFRS is presented in the consolidated financial statements, notes to the financial statements 7.10.

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

| | As at 30 September | |
|---|---|---|
| in KEuros | **2016** | **2015** |
| Non-current assets | 41,653 | 41,260 |
| Current assets | 53,449 | 44,497 |
| Total assets | 95,102 | 85,757 |
| **Shareholders' equity** | **58,394** | **49,761** |
| Non-current liabilities | 2,115 | 2,778 |
| Current liabilities | 34,593 | 33,218 |
| Total liabilities | 36,708 | 35,996 |
| Total shareholders' equity and liabilities | 95,102 | 85,757 |

### 1.12.1 Value-based Group controlling

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

### 1.12.2 Financial position and investments

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

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

On 30 September 2016, the KPS Group had cash amounting to 12.6 (previous year: 6.5) million euros. On the balance sheet date, bank liabilities amounted to 0 (previous year: 0.0) million euros. Net liquidity rose by 6.1 million euros compared with the equivalent year-earlier balance sheet date.

Cash flow from current activities amounted to 20.3 million euros in the year under review compared with 12.9 million euros in the previous year. Cash flow from investment activities amounted to -4.0 (previous year: -1.4) million euros and relates to the investments initiated in fixed assets. Cash flow from financial activities amounted to -10.2 (previous year: -9.7) million euros in the business year under review.

### 1.12.3 Net assets

The KPS Group has a term-congruent balance sheet structure. The increased business scope is reflected in the balance sheet total. On 30 September 2016, this amounted to 95.1 (previous year: 85.8) million euros and therefore increased by 9.3 million euros or 10.8 % compared with the previous year.

#### 1.12.3.1 Development of assets

The assets tied up in medium to long-term assets amount to 41.7 (previous year: 41.3) million euros on the balance sheet date.

These primarily relate to the goodwill from earlier acquisitions of KPS AG amounting to 30.5 (previous year: 30.5) million euros. Other intangible assets amounted to 2.0 (previous year: 1.2) million euros in the period under review. On the balance sheet date, property, plant and equipment amounted to 1.1 (previous year: 0.8) million euros. The capitalized deferred taxes amount to 8.0 (previous year: 8.8) million euros.

During the year under review, 2.4 (previous year: 0.4) million euros were invested in property, plant, and equipment, and intangible assets.

Receivables from future production orders, trade receivables, and other assets recognized under current assets amounting to a total of 36.3 million euros increased by 2.7 million euros or 8.0 % compared with the equivalent year-earlier value.

#### 1.12.3.2 Development of equity

The share in equity attributable to shareholders of KPS AG increased by 8.6 million euros compared with the previous year and amounted to 58.4 (previous year: 49.8) million euros on 30 September 2016. The equity ratio improved from 58.0 % to 61.4 %, compared with the balance sheet date in the previous year. A detailed explanation is provided in the statement of changes in shareholders' equity.

#### 1.12.3.3 Development of liabilities

Apart from deferred tax liabilities amounting to 0.3 (previous year: 0.2) million euros, non-current liabilities amounting to 2.1 (previous year: 2.8) million euros primarily relate to pension obligations amounting to 1.0 (previous year: 0.5) million euros and obligations arising from a management loyalty program amounting to 0.8 (previous year: 0.4) million euros.

There are no other non-current liabilities on the balance sheet.
An increase in current liabilities of 1.4 million euros to 34.6 (previous year: 33.2) million euros was posted compared with the balance sheet date for the previous year. The increase is mainly due to the increase in other liabilities by 2.7 million euros to 8.3 (previous year: 5.6) million euros. Other provisions went up by EUR 0.9 to 10.5 (previous year: 9.6) million euros.

Trade liabilities decreased by 0.8 million euros, and the payments received on account decreased by 2.3 million euros.

### 1.12.4 Appropriation of profits

Earnings after income taxes amounted to 19.3 million euros in the year under review and therefore increased by 1.3 million euros compared with the previous year (18.0). For the proposed dividend of 12.3 (previous year: 10.2) million euros, the payout rate would amount to 63.7 % of the Group earnings. This dividend proposal takes account of the profitability and the dependable payout continuity of KPS AG.

### 1.12.5 Overall summary of business performance

KPS recorded a successful business year for the period 2015/2016. The Executive Board has a positive assessment of the economic situation and the future perspectives of the company. The revenues and the results of operations were once again improved by comparison with the previous year. An equity ratio of 61.4 % places KPS on a robust financial platform. The excellent financial base and the capital expenditure initiated in development services have created the enablers for an ongoing successful future.

## 1.13 Other important events

### 1.13.1 Changes in the Executive Board

Mr. Leonardo Musso, General Representative of KPS AG, was appointed to the Executive Board effective 21 December 2015. Mr. Dietmar Müller and Mr. Leonardo Mosso have therefore been managing the Group during the period under review.

### 1.13.2 Other contractual transfers

No major contractual transfers took place during the period under review.





# 2 OPPORTUNITIES AND RISK REPORT

The economic development in Germany and our most important European markets and the associated change in investment behavior exerted a significant impact on the financial position and results of operations, and the asset situation of the KPS Group. In the course of our research activities, we regularly analyze studies and forecasts of economic institutes to gain the necessary overview of the likely development of the economy in markets relevant to us.
On the basis of the order backlog currently in place and extending over a long period, we do not expect any negative impacts over the short term taking the present economic situation into account. However, we do not exclude the possibility that a sustained negative economic development could exert a negative impact on sales and income over the medium and long term.

## 2.1 Macroeconomic opportunities and risks

**Recession risks and protectionist trends are dominant**

The development of the global economy is still subject to risks of falling into recession according to the joint forecast of the most important German-based economic research institutes. They indicate that although fiscal policy in China is stimulating the economy, this could increase the long-term risk of an economic collapse over the long term. There again expansion of the money supply could lead to increased indebtedness particularly in sectors subject to falling profitability. Experts have also indicated that a sign indicating a general overall risk is provided by the decision of the British people to exit from the EU. The increasingly negative perception of globalization therefore favors protectionist trends in various countries. The political decisions resulting from this mood could already herald application of the brakes to the global economy. The associated uncertainties about future institutional and political framework conditions could markedly reduce the willingness of companies to invest.[18]

**Risk resulting from the banking sector and EU exit in the eurozone**

Spending by consumers and companies in the European Union might fall as a result of the uncertainty arising from problems in the banking sector in Italy and Portugal combined with conflicts in neighboring countries in the Eastern Mediterranean. This could put the brakes on macroeconomic demand. Furthermore, the leading German-based economic research institutes regard the consequences of the British exit from the EU as a risk. Uncertainties about the length of the exit process and the country's future access to the Single Market could trigger a prolonged phase of restrained investment in the United Kingdom and to a lesser extent in the other countries of the European Union.[19]

**Risk for Germany arising from monetary and export environment**

According to the joint forecast, the risks for the forecast development of the economy in Germany mainly arise from the monetary and export environment. Although the German economy could experience stronger growth than anticipated, since the monetary framework conditions are exceptionally favorable from the business perspective, the Federal Republic of Germany is also beset by the risk of social flows that could result from reduced integration in the global economy. The economic research institutes are therefore assuming that the decision by the British people to leave the EU could exert a negative impact on the German economy. The assumption is that the approach of companies to investment will not be significantly affected by the Brexit decision. Nevertheless, if business relations between the European Union and the United Kingdom deteriorate significantly as a result of a confrontational approach in the exit negotiations, the British economy would suffer a greater impact than had been previously assumed. This would weaken demand from the United Kingdom for capital goods and imports. German exports and the resulting domestic investment demand would therefore be lower than projected. The joint forecast indicates that the decision by the British people is regarded as an expression of lack of participation by sections of the population in the macroeconomic benefits of globalization. The increasingly negative perception of globalization in various countries and the resulting protectionist trends combined with the corresponding political decisions present a risk for the potential growth of the global economy and therefore also for the economy in Germany.[20]

## 2.2 Sector-specific development

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

The ongoing process of digital transformation demands innovative and agile consulting approaches that can be implemented quickly.

18 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2016/gdherbst2016_langfassung.pdf
19 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2016/gdherbst2016_langfassung.pdf
20 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2016/gdherbst2016_langfassung.pdf

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

Significant growth momentum is anticipated in omnichannel, in B2B and also for B2C in retail, and in the service sector and industry, especially as a result of the challenges of digital transformation. Procurement structures in the company are changing, and decision-makers are no longer only to be found in the traditional IT or financial sectors. Budgets are increasingly migrating to the marketing and e-commerce sections of companies. Sales and marketing activities, and beyond these the consulting approach, in general, have to be modified to suit these additional new partners in the individual sectors.

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

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

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

### 2.3 Service and sales area

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

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

The complexity of the projects and specifics in the sectors where the clients of KPS are operating can result in technical and/or qualitative problems that cannot be resolved by the team of employees assigned to the project.
KPS is increasingly observing a trend in the marketplace where competitors attempt to emulate the successful model. It is not possible to exclude the possibility that mid-sized and large consulting firms may attempt to take up a strong competitive position against KPS.

### 2.4 Opportunities and risks arising from scale effects

The interest of large companies in the consulting services of KPS has continued to grow as a result of the current size of the company, continually rising annual sales of currently around 145 million euros, and a consistently growing, stable consulting team of currently more than 400 employees. The burgeoning appeal of KPS increases the opportunities of being engaged by major clients as a general contractor.
The complexity of consulting initiatives and the corporate scale of its clients means that KPS can only operate with a limited number of major projects at any one time. The failure (insolvency) of one or several of these major clients therefore entails a risk to the continuing existence of the company as a going concern.

### 2.5 Market opportunities and risks

KPS has a robust customer base. Major companies in Germany and abroad entrust KPS with carrying out important project initiatives. The comprehensive consulting portfolio of KPS provides the platform for an attractive offering potential. A very high level of customer satisfaction is being generated in current transformation projects and a large number of projects that have been brought to a successful conclusion.

The outlook for the business year 2016/2017 is exceptionally positive owing to sustained growth momentum arising from the sector and from new projects that have already been launched.

Nevertheless, macroeconomic slowdowns or one-off events can exert unexpected impacts on the company over the short term.

KPS generates the major share of its sales with major customers. The top 10 customers represent 71 % of sales. The high proportion of sales generated by individual customers increases the risk of dependence on these customers. Unforeseen curtailment of projects with two or more major customers can result in serious impacts.

None of the risks has the status of a risk that poses a threat to the continuing existence of the company as a going concern. However, all of the risks can exert a negative impact on the asset situation, financial position, results of operations, and business result.

### 2.6 Other operating opportunities and risks

There is a risk that existing customers do not extend current contracts and that no equivalent new customers can be found to compensate for this. The decline in the rate of utilization of capacity could exert significant impacts on the results of operations of the Group on account of the high proportion of service sales within the overall sales of KPS. KPS provides a significant proportion of its services to Groups and large, medium-sized customers. Losing the business relationship with a major customer could exert significant effects on the development of sales and earnings.

KPS has a very close relationship with the companies SAP, Hybris, and Adobe in different areas of business. Good relations with these partners are extremely important for the profitable development of the individual Group companies. Ending the cooperation with one of the partners could impact negatively on the sales and earnings situation.

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

KPS takes on warranty obligations for supplied systems and services provided. Manufacturer's guarantees are passed on. Otherwise, the statutory warranty regulations are applicable. Since the proportion of sales arising from the sale of hardware and software, and from maintenance contracts is still relatively low as a proportion of total sales at KPS, the resulting potential risks are still categorized as low. Where KPS supplies services and bears warranty obligations as a result, the company protects itself by taking out corresponding liability policies to the extent necessary.

### 2.7 Investment and financing area

Currency risks only arise to a limited extent on account of concentration in the eurozone. This also applies to liquidity and interest-rate risk on account of the robust capital and financing structure. The business model of KPS entails managing relatively few but very complex projects at the same time. The loss of a client can therefore exert a very negative impact on the liquidity situation of KPS.

### 2.8 Effects of exchange-rate developments

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

### 2.9 Tax area

There are tax risks amounting to the provisions made for arrears of trade tax payments of a subsidiary company.

### 2.10 Other major events

No major events took place in the period under review which exert a negative effect on business development.

### 2.11 Risks to the continuing existence of the Group as a going concern

The Executive Board of the KPS Group assesses the risks as limited at the point when the Management Report was prepared. The overall risk situation is manageable. No fundamental change in the overall risk situation has emerged compared with the report on the annual financial statements dated 30 September 2015. There are currently no identifiable risks which could individually or in combination with other risks lead to a significant or permanent impairment of the financial position, results of operations, and asset situation of KPS or would be regarded as posing a risk to the continuing existence of the Group as a going concern. Risks which could put the continuing existence of the KPS Group at risk are therefore not identifiable at the current time.

### 2.12 Overall risk

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

## 3 PERFORMANCE OF THE SHARE PRICE

**Performance of the price of the KPS share (1 October 2015 to 30 September 2016)**

An established upward trend in European equity markets in September 2015 came to an abrupt end at the close of the year in December as a result of disappointed expectations for an expansion of monetary policy by the European Central Bank (ECB). Poor business data and a sustained collapse in the oil price brought about a decline in equity prices on European exchanges during the first quarter of 2016. The DAX blue chip stock market index also made a weak start to the year on the basis of concerns about a recession in the global economy. The British vote on exiting from the EU led to additional losses during the second quarter. The overall performance in international equity markets during the first half year of 2016 was defined by significant volatility there. Stock exchanges in the USA and the emerging economies were the exceptions to the trend. In the third quarter of 2016, important determinants for equity markets underwent an improvement. The re-emergence of concerns about a renewed recession at the beginning of the year petered out as the stock market year progressed in 2016. The position in the emerging economies improved thanks to an increase in the prices of raw materials, but early indicators also signaled an impending economic upturn in the industrialized countries. Data emerging from Germany were particularly positive.

Alongside the economic framework conditions, overwhelmingly positive corporate profits also provided a surprise. The anticipated turbulence in the equity markets resulting from elections in the US for the American President failed to materialize.

The share of KPS AG significantly outperformed the DAX in the business year 2015/2016 and posted a price gain of 124.4 % in the year under review. The price performance was exceptionally positive in the second and fourth quarters with a gain of 45.0 % and 50.7 % respectively. During the period from October 2015 to September 2016, the DAX only posted an increase of 7.7 %.

On 1 October 2015, the share of KPS AG started with a price of 6.03 euros in trading. After a low of 5.68 euros on 2 October 2015, the KPS share succeeded in establishing a sustainable upward trend. On 29 September 2016, the share of KPS AG recorded a high for the reporting period at 13.80 euros. Trading in the shares of KPS AG ended the reporting year 2015/2016 with a closing price of 13.53 euros on 30 September 2016.

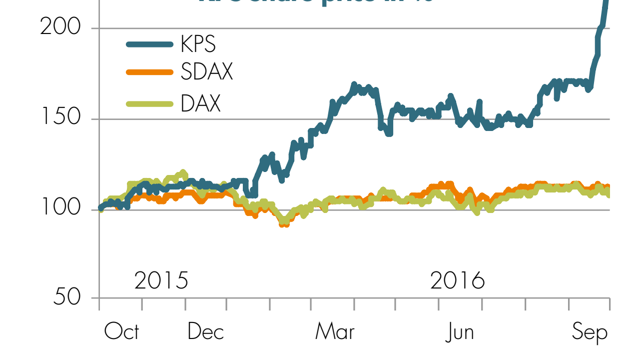
The average daily trading volume for the KPS share on all German stock exchanges amounted to 14,733 shares (previous year: 15,918 shares) during the period under review. As a result of the positive share price performance and the capital increase carried out, the market capitalization of KPS AG therefore rose to 506.2 million euros on 30 September 2016 based on 37,412,100 shares currently in circulation. As at 30 September 2015, the stock market value with a year-end price of 5.66 euros and 34,011,000 shares was 192.5 million euros (all data based on Xetra prices).





**Performance of the KPS share price in euros**


**Comparison of the performance of the KPS share price in %**




**Annual General Meeting and dividend**

On 15 April 2016, the Executive Board of KPS AG reported to the shareholders at the ordinary Annual General Meeting on the performance of the business year 2014/2015 and responded to their questions. The shareholders approved the actions of the Executive Board and the Supervisory Board, and almost unanimously voted to approve the proposals put forward by the company management. The voting results of the ordinary Annual General Meeting can be viewed at https://www.kps.com/under Investor Relations/Annual General Meeting.

The company paid out a total of 10,166,927.70 euros as a dividend to shareholders from the net profit amounting to 19,520,551.45 euros reported in the annual financial statements for 2014/2015. The dividend per share amounted to 0.30 euros and consequently rose by 0.02 euros per share compared with the year-earlier amount. The remaining partial amount of the net profit amounting to 9,353,623.75 euros was carried forward to new account.

A dividend return of 5.0 % was calculated for the last business year based on the opening price of 6.03 euros on 1 October 2015 taking account of the paid dividends of 0.30 euros per share. The total return (price gain and dividend return) on the KPS share amounted to 129.4 % during the year under review. As well as approving the dividend payment, the Annual General Meeting passed a resolution on a capital increase from company funds.

The Executive Management and Supervisory Board propose an increase in the dividend to 0.33 euros (previous year: 0.30 euros) per share for the past business year 2015/2016.

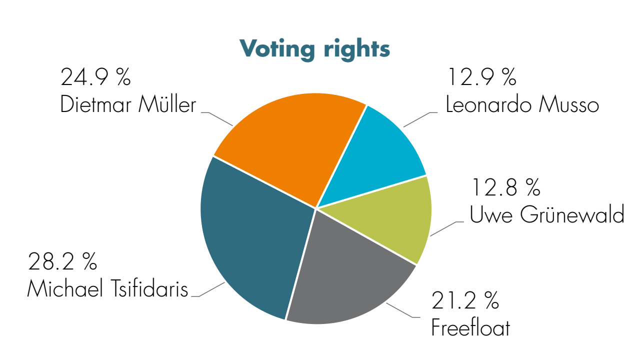
**Capital increase**

During the period under review, KPS AG carried out a capital increase from company funds for the issue of so-called “free shares”. 3,401,100 new shares were issued following authorization by the Annual General Meeting held on 15 April 2016 and with the consent of the Supervisory Board provided on 29 February 2016. This capital measure resulted in each KPS shareholder receiving one new share for ten existing shares. The shareholders were not therefore required to make a payment (free shares). This measure was intended to increase the capital stock of the company by conversion of the capital reserves.

The capital stock of the company increased as a result of the capital measure by 3,401,100.00 euros to 37,412,100.00 euros. This measure did not exert any influence on the level of the shareholders’ equity in the company. Rather it represented a reallocation within the components of the shareholders’ equity. In order to facilitate the planned straight issue ratio of 10:1 for the capital increase from company funds, the capital stock of the company had previously been reduced by 7.0 euros from 34,011,007.00 euros to 34,011,000.00 on the basis of the authorization resolution approved by the Annual General Meeting held on 27 March 2015, to redeem seven acquired own shares in accordance with Article 71 Section 1 No. 8 Stock Corporation Law (AktG). The notional amount of each share in the capital stock remained unchanged at 1.00 euro.

**Shareholder structure**

The shareholder structure of KPS AG is defined by the four founders of the company. At the end of the business year 2015/2016, they held a majority of the voting rights. The Chairman of the Supervisory Board, Michael Tsifidaris, holds 28.2 % of the shares in the company. Member of the Executive Board Dietmar Müller holds 24.9 % of the voting capital stock. Member of the Executive Board Leonardo Musso holds 12.9 %. Member of the Supervisory Board Uwe Grünewald holds 12.8 % of the voting capital stock. 21.2 % of the shares in KPS are in free float.




**Investor Relations**

In the business year 2015/2016, KPS AG 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 beyond the reporting obligations under statutory regulations and stock-exchange rules. The Executive Board of KPS AG also communicated proactively with the financial and business press to present the profile of the company to the capital market. KPS AG intends to engage in even more intensive communication activities with players in the capital market and to focus more on roadshows and conferences.

As a company listed in the General Standard of the Frankfurt Stock Exchange, KPS AG complies with the high statutory standards for publicity and transparency of the Regulated Market. Oddo Seydler Bank AG acts as the designated sponsor for the preparation of binding bid and offer prices for appropriate liquidity and ensures the corresponding tradability of the KPS share. Any investors interested in additional information can go to the Investor Relations section on the home page under https://www.kps.com/de.investor-relations.html.

**Analysts' research**

The performance of the KPS share is continuously analyzed and evaluated by the leading banks Oddo Seydler Bank AG and Landesbank Baden-Württemberg (LBBW), and the investment company GBC Research. The analysts unanimously emphasize their recommendations to buy the KPS share in their latest studies on business performance and the perspectives of the company. After the end of the business year 2015/2016, Oddo-Seydler analyst Henning Steinbrink raised the target price in his report dated 13 October 2016 from 11.00 euros to 14.00 euros based on the robust dynamic growth performance.

Share information (status: 30 September 2016)

| | |
|---|---|
| Sector | Software (IT service provider) |
| ISIN | DE000A1A6V48 |
| Securities Identification Number (WKN) | A1A6V4 |
| Ticker symbol | KSC |
| First listing | 14 July 1999 |
| Number and type of shares | 37,412,100 registered no-par value ordinary shares (no-par shares) |
| Share capital | EUR 37,412,100.00 |
| Stock exchange | Frankfurt, Stuttgart, Hamburg, Berlin-Bremen, Düsseldorf and Munich, and XETRA |
| Market segment | Regulated market |
| Transparency level | General standard |
| Designated sponsor(s) | Oddo Seydler Bank AG |
| High/Low | EUR 13.80/5.68 |
| Opening price | EUR 6.03 |
| Closing price | EUR 13.53 |
| Market capitalization | EUR 506.2 million |





## 4 FOLLOW-UP REPORT

### 4.1 Reportable events

After the reporting period had finished, KPS AG signed a purchase contract on 2 December 2016 for the acquisition of all shares in Saphira Consulting A/S, Virum, Denmark through its Danish subsidiary company KPS Consulting A/S. The transaction was closed effective 5 January 2017. Saphira Consulting A/S is an extremely well-qualified SAP consulting company in the Scandinavian market and has an outstanding reference base. The acquisition enables the KPS Group to further expand its leading position in the European market as a consultant and service provider for transformation projects in the fast-growing field of digitalization.

On 9 December 2016, KPS AG also applied for a listing on the Prime Standard of the Frankfurt Stock Exchange. Effective 23 December 2016, the change from General Standard to Prime Standard was completed. Compliance with the highest transparency standards enhances the appeal of the KPS share for institutional investors. The listing on the Prime Standard means that KPS AG complies with a requirement for a potential listing of the KPS share in a prime index of Deutsche Börse AG.

### 4.2 Changes in net assets, financial position, and results of operations

Since 30 September 2016, no events of major importance have occurred from which we expect a significant impact on the net assets, financial position and results of operations of the KPS Group.

### 4.3 Assessment of the current development by the Executive Board

The KPS Group has been able to implement in full or indeed exceed the corporate targets defined by the Supervisory Board and the Executive Board for the business year 2015/2016. Sales and most importantly earnings were significantly above those of the previous year, and they also exceeded the expectations at the beginning of the business year 2015/2016.

KPS has made a successful start to the business year 2016/2017. The dynamic growth of the business year under review was taken forward into the current business year. On the basis of their current knowledge, the Executive Board and the Management are assuming that the forecast growth targets for sales and earnings will be realized in the current business year.

It was possible to establish stable factors for the sustainable growth of KPS on the back of the excellent development of the company. When this report went to press, the expectations for sales and income were commensurate with the defined values.

## 5 RISK MANAGEMENT TARGETS AND METHODS OF THE KPS GROUP

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

An efficient management information system was established on the basis of innovative reporting instruments. This is being adjusted to match the current challenges of the company and further developed on an ongoing basis.

The management has a comprehensive finance and controlling system at its disposal to identify, monitor and control the risks that KPS is exposed to. The system provides the management with all the necessary information to a high standard of quality on a daily basis. Risks are identified by experienced project managers in regular reviews with the Vice Presidents and the Executive Board.

## 6 PRICE CHANGE, DEFAULT AND LIQUIDITY RISKS, AND RISKS ARISING FROM CASH FLOW FLUCTUATIONS

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.

## 7 RESEARCH AND DEVELOPMENT

KPS invests in the area of research and development, and this is mainly directed toward improvements in the technical integration of different software platforms like SAP and Hybris. We regard ourselves as the market leader among management consultants for this integration process. KPS also invests in the development of new operating concepts for software applications.
Since the business year 2015/2016, intensive development work has been carried out on standardizing SAP processing streams. Own work capitalized in this area amounted to 1.5 (previous year: 0.0) million euros over the course of the business year under review. The developments capitalized over the course of the business year were not completed by the balance sheet date, and no amortization was therefore posted.

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

## 8 COMPENSATION REPORT

### 8.1 Compensation payments to the Members of the Executive Board

The compensation payments for the Executive Board are made up of fixed and variable components. Defined annual salary payments are agreed for each Member of the Executive Board as fixed elements, and these are payable in twelve equal monthly installments at the end of each month. The variable component is linked with the attainment of predetermined success indicators in the KPS Group and is paid out in the following business year. The remuneration for the Executive Board amounted to a total of 1,250 (previous year: 680) KEuros, and the variable proportion amounted to 48 % of the total compensation payments. The reason for the increase in the compensation is that the Executive Board has been made up of two members since December 2015. The individualized compensation payments made to the Members of the Executive Board are not published, and an appropriate resolution on this matter has been passed by the Annual General Meeting. A vehicle is provided to each Member of the Executive Board for official and private use. The Executive Board members also receive an allowance toward private health insurance. Furthermore, a Group accident insurance has been concluded.

### 8.2 Compensation payments to Members of the Supervisory Board

A resolution defining the current compensation structure of the Supervisory Board was approved at the Annual General Meeting held on 9 May 2008. According to this structure, each member of the Supervisory Board receives fixed compensation amounting to 15 KEuros in addition to reimbursement of their expenses after the business year has come to an end. The Chairman of the Supervisory Board receives 25 KEuros. The compensation is payable after the Annual General Meeting. In the business year 2015/2016, the compensation for the Supervisory Board amounted to a total of 55 (previous year: 55) KEuros. In the business year 2015/2016, the compensation payments for the Chairman of the Supervisory Board, Mr. Michael Tsifidaris, amounted to 25 (previous year: 25) KEuros, for Mr. Uwe Grünewald 15 (previous year: 15) KEuros and for Mr. Hans-Werner Hartmann 15 (previous year: 15) KEuros.

## 9 IMPORTANT FEATURES OF THE INTERNAL CONTROLLING AND RISK MANAGEMENT SYSTEM WITH REFERENCE TO THE GROUP ACCOUNTING PROCEDURES (REPORT PURSUANT TO ARTICLES 289 SECTION 5, 315 SECTION 2 NO. 5 GERMAN COMMERCIAL CODE (HGB))

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

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

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

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.

## 10 OUTLOOK REPORT

### 10.1 Macroeconomic development

#### 10.1.1 Pace of global growth remains subdued for the time being

Over the coming two years, the most important German-based economic research institutes anticipate that the global economy will continue to gain traction, but they do not expect a strong global upturn. As far as 2017 and 2018 are concerned, the experts generating the joint forecast project growth of 2.7 % in each year. They expect that private consumption will continue to be the driver for this economic expansion. Employment in the USA, the eurozone and Japan looks set to undergo a further tangible increase. The economic research institutes expect minimal progress on productivity, and this will mean that wages climb more slowly. The gains in purchasing power are also predicted to be eaten up by rising energy prices with the result that this could act as a brake on private consumption. The financial conditions are likely to remain favorable for the foreseeable future. Investment activity could, however, be held back as a result of a subdued outlook for exports in the emerging economies, which are experiencing a slowdown in the growth trend. According to the joint forecast, uncertainty about future institutional and regulatory framework conditions will inhibit the propensity of companies to invest. Stabilization of the global economy could, however, trigger a recovery effect following sustained investment restraint. An improvement in the sales prospects of companies may consequently lead to necessary replacement investments. Overall, the leading German-based economic research institutes continue to believe that the dynamic performance of global investment continues to be lower than before the great recession.[21]

**Continuation of recovery in the eurozone**

On the basis of the joint forecast, growth is expected to slow down to 1.5 % in each of the years 2017 and 2018. The ongoing recovery of economic activity is likely to be reflected also in a steady decline of the unemployment rate, which is projected to continue falling to 9.2 % by 2018. Stabilization of energy prices is likely to lead to a rise in the rate of price increases amounting to 1.2 % in 2017 and 1.5 % in 2018. Conversely, the decision by the United Kingdom to exit from the European Union could lead to a weakening of the economy in the eurozone, at least over the short term. A substantial negative impact on the eurozone is not anticipated in the wake of weaker development in the United Kingdom and a fall in the value of the pound sterling is not expected. An improvement in global economic conditions might generate momentum for the eurozone. The financial conditions ought to remain favorable during the period covered by the forecast as a result of the expansive financial policy. Companies are likely to gain confidence in this environment, and capital expenditure is likely to undergo accelerated expansion.[22]

#### 10.1.2 Germany continues to experience a moderate upswing

The most important German-based economic institutes have indicated that growth in Germany will only be 1.4 % in 2017 owing to the lower number of working days compared with the previous year before the economy returns to increased growth of 1.6 % in 2018. On the back of higher dynamic performance of the global economy, the experts are forecasting an increase in German exports. The excellent developments in the domestic economy mean that imports are likely to be stronger. Although utilization of macroeconomic capacities will be more robust during the forecast period than in the long-term average, company investments will nevertheless not be the primary driver for the upswing. Rather, consumption by private households will continue to be the main motive force, since this will benefit from the sustained increase in employment. Investment activity by companies is likely to rise slightly based on a marginally positive output gap. Experts anticipate that the unemployment rate in Germany will be 6.1 % in each of the next two years, irrespective of the integration of refugees

21 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2016/gdherbst2016_langfassung.pdf
22 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2016/gdherbst2016_langfassung.pdf

and migration from countries within the European Union. The renewed climb in the price of oil projected in 2017 means that prices are likely to rise by 1.4 % over the coming year. Inflation of 1.5 % is expected in 2018. The German economy could also expand more strongly than expected due to the sustained favorable financing conditions. Conversely, the decision taken by the British people to leave the European Union could exert a negative impact on the economy in the Federal Republic of Germany.[23]

### 10.1.3 Sector-specific development

**Market growth as a result of digitalization**

Over the coming six months of the winter half-year 2016/2017, 38 % of management consultants in Germany are expecting a further improvement in business prospects. Only 6 % are anticipating an unfavorable development. IT consultants are particularly optimistic about the situation following the business climate survey carried out by the Federal Association of German Management Consultants (BDU) during the third quarter of 2016. Consultants are anticipating a rising demand for consulting services for the coming half year with a particular focus on the consumer goods industry, automotive construction, and engineering.[24] [25] The IT services sector is also continuing to experience an upswing. Market growth is resulting from customer demand for support with digital transformation projects. IT consulting and system integration companies, in particular, are benefitting from this development with a focus on project business. IT consulting companies are expecting sales growth of 13 % in 2017.[26]

**Digitalization for future-proof capability**

Digitalization is changing the business models and processes of companies. As a result, the Federal German Association of Management Consultants (BDU) has established that the economy in Germany is not positioned to be future-proof within the global economy without realignment or adjustment across broad swathes of business.[27] As a consequence, the demand from companies for IT services is also increasing for implementation of digitalization concepts. The capability to integrate digital solutions in existing IT systems plays a major role here. According to the Lünendonk Study investigating the market for IT consulting and IT service carried out in 2016, 74 % of companies in Germany intend to modernize their existing IT systems and integrate digital solutions, with investment in digital transformation.[28]

**Integration is the key factor for success with digitalization**

The increasing number of digitalization projects requires adequate personnel for implementation. However, companies have to face up to the challenge presented by a deficit of qualified specialist staff, and around half of our client companies are unable to recruit enough employees with the right skill set to carry out their projects. At the same time, the complexity of projects is increasing and this, in turn, increases the demand for IT services. However, IT consulting companies are also impacted by the shortage of specialist personnel. Recruitment of suitably skilled personnel presents a challenge for 87 % of IT service companies, and as a consequence, one-fifth of the vacant positions remain unfilled.[29] Management consultants are virtually unanimous in expecting a rise in virtualization of their own services over the upcoming five years. As a result of the virtualization of consulting services, their own value chain could be optimized, and new consulting segments could be developed. This would entail that know-how can be deployed more effectively on project work and independently of the physical location of staff. The consulting firms would, therefore, be able to optimize their own performance and create a distinct profile setting individual consultancies apart from the competition. Innovative reference projects also strengthen the reputation of management consultants as digital pioneers.[30] Client companies are particularly keen to take advantage of an integrated consulting and transformation approach in the case of complex transformation projects. Consulting firms with expertise in business innovation and transformation are the preferred partners for digitalization.[31] The reason for this is that digital transformation and changed customer requirements lead to new needs for strategic development and implementation of projects alongside the restructuring of previous business models. Integration of innovation management, specialist consulting, and IT transformation are regarded as critical factors for success with digitalization. As a result of the modified demands relating to digitalization projects, companies are realigning their sourcing strategies and models for collaborating with external consulting and IT service providers. Consulting companies are therefore increasingly subject to the demand to adjust their business models.[32] Although the development and launch of digital business models are defined by the shortage of skilled staff, the advance of these areas is ongoing, and the role of specialist areas in IT projects continues to increase in importance. The Lünedonk Study investigating the market for IT consulting and IT service in 2016 found that responsibility for digitalization products was situated with specialist departments in 85 % of the major companies and groups surveyed. As a result, the specialist departments are responsible for 39 % of the budgets and the consulting companies generate one-third of their sales with the specialist departments of the client companies. Selection of an appropriate consulting company is yet another challenge for around one-third of the companies involved in this process.[33]

## 10.2 Development of the KPS Group

The challenges presented by digitalization of society and the economy are compelling companies to question proven business models, processes, and technologies. They then have to test and implement innovative concepts and approaches, and may then have to abandon them again.

In principle, any company has always needed to meet challenges of this nature, but the speed with which completely new models have to be established has increased significantly. There is, therefore, less time to respond or proactively adopt a new roadmap. More than ever before, companies are uncertain about what the future holds. During this period of change, they are therefore more dependent on consulting partners who provide them with support for transformation initiatives. In this scenario, KPS Consultants effectively take on the function of a harbor pilot who steers the ship and highlights the risks but most importantly the opportunities of digitalization for customers.

Recent years have demonstrated that business models and entire companies can be "digitalized out of existence" by new competitors within a very short space of time. The biggest drivers of these changes are mobile phones, big data, social media and cloud services. Entire sectors are being turned upside down, and new developments are always associated with high levels of investment. There is also often some lack of clarity about how a new business model can develop to ensure that a business idea can be brought to fruition profitably and sustainably over the long term. In such contexts, it is invaluable to be able to rely on support from a consulting partner who can contribute experience, an approach geared to solutions, and creative ideas.

The marketplace is not only changing for customers. Consulting companies are also having to adapt to the changes in their sector. Although the Executive Board or the senior management still have considerable influence when it comes to deciding which consulting company should be awarded a contract, the number of contacts and decision-makers has significantly increased. Today, fast implementation and reduction of project run times play a key role in the selection of a consulting partner. Over recent years, KPS has developed the innovative Rapid Transformation Method into a significant competitive advantage over the competition.

The universal and comprehensive digital transformation is evident everywhere and brings with it changes that will define markets, people, and society itself. Digitalization is the innovation driver of the 21st century. It comprises a wide range of different developments which all have the same consequence. This is the operational and cultural transformation of companies toward company controlling in real time and encompassing individualization and personalization of products and production. Companies are not simply having to modify business models, corporate concepts, and strategies. Their primary challenge is the need to engage much more intensively with the changed behavior of their customers – the individual consumer. Strategies, processes and digital technologies have to be directed toward this objective.

KPS anticipated this development in the market at an early stage and has geared its strategy, organization and supply models toward this phenomenon. The paradigmatic corporate culture at KPS makes an important contribution to success at the company. It is a significant factor in attracting exceptionally highly qualified employees to KPS and enhancing their loyalty to the company over the long term.

One of the most important objectives for the business year 2016/2017 and beyond is to consolidate market leadership for transformation consulting and process optimization in retail and consumer goods, the focus sectors for KPS. We also want to continue expansion internationally and make use of the opportunities. Not least, we intend to exploit the potential benefits that arise as a result of verticalization and from a symbiosis between industry and retail.

23 https://www.ifw-kiel.de/wirtschaftspolitik/prognosezentrum/konjunkt/2016/gdherbst2016_langfassung.pdf
24 http://www.bdu.de/media/160672/geschaeftsklimabefragung_herbst2015.pdf
25 http://www.bdu.de/media/174316/ergebnisse-marktstudie-unternehmensberatung-2016.pdf
26 http://luenendonk.de/pressefeed/luenendonk-listen-2016-digitale-revolution-treibt-it-markt-in-neue-hoehen
27 http://www.bdu.de/media/239266/thinktank-plus-zukunftsfaehige-arbeitswelten-092016.pdf
28 http://luenendonk.de/pressefeed/luenendonk-studie-2016-investitionen-in-die-digitale-transformation
29 http://luenendonk.de/pressefeed/luenendonk-studie-2016-investitionen-in-die-digitale-transformation
30 http://www.bdu.de/media/227421/studie-virtualisierung-juli-2016.pdf
31 http://luenendonk.de/pressefeed/business-innovationtransformation-partner-auf-erfolgskurs
32 http://luenendonk.de/pressefeed/neu-luenendonk-studie-2016-business-innovationtransformation-partner-ein-dienstleistungskonzept-fuer-die-digitale-transformation
33 http://luenendonk.de/pressefeed/luenendonk-studie-2016-investitionen-in-die-digitale-transformation

### 10.3 Key areas of business

Management consulting is the core segment for our activities and the main sales driver. We achieve our above-average growth rates in the segment of transformation consulting and process optimization.

We are assuming that our service and software business will also continue to grow during the business year 2016/2017. Process and implementation consulting on SAP and Hybris platforms are the focus of activity in the consulting segment.

### 10.4 Service and sales area

In the business year 2015/2016, KPS succeeded in fully implementing the guidelines and corporate targets defined by the Supervisory Board and the Executive Board. Sales and earnings performance gratifyingly developed beyond the planned budget values. This positive corporate development enabled the creation of reliable factors for stable and long-term growth at KPS. On the basis of the status quo, the Executive Board is assuming that sales and earnings will develop according to the forecasts for the business year 2016/2017. When this report was printed, the current business development was in line with expectations expressed in the key financial indicators.

### 10.5 Investment and financing

Comprehensive investments are envisaged in the area of human-resource expansion and development with the aim of increasing sales. Significant investments have also been planned to power our further expansion across Europe. In Denmark, one acquisition has already been made in the business year 2016/2017.

We are not anticipating any key changes for cost structures. Our assessment for the business year 2016/2017 results from a number of factors including the positive development of past reporting periods, and is mainly based on the excellent consulting portfolio for our focus sectors of retail and the consumer goods industry.

### 10.6 Sales, results of operations and financial position

#### 10.6.1 Business development of KPS

Provided that the macroeconomic developments move within the forecast framework and no events occur to destabilize the economy, the KPS Group is assuming that there will be a further increase in sales and earnings in the business year 2015/2016. We are also anticipating continuous and stable growth for the following years. As well as increasing sales, we want to consistently concentrate on optimizing income.

The Supervisory Board and the Executive Board of KPS AG want to maintain the successful trajectory of the company and consistently maintain the strategic course that has been charted. Our primary function with this process is to drive forward the internationalization of KPS across Europe.

#### 10.6.2 Positive assessment of the situation for development at KPS AG

The Executive Board and the management at KPS AG have an extremely positive overall assessment of the situation. We are in an excellent position to address the challenges of the future. Furthermore, KPS has a robust financial structure and income position. Our committed and highly qualified employees will also make a major contribution to the success of the company in future.

When making plans for the business year 2016/2017, the Executive Board is continuing to assume stable growth, and the focus will be on long-term improvement of margins for earnings. We made a successful start to the new business year 2016/2017. During the first quarter, our sales and orders booked have undergone very satisfactory development in line with our expectations. The Executive Board is anticipating an increase in sales to a projected figure of 160 million euros and an EBIT of 25.0 million euros for the current business year. These values reflect the forecast for Saphira A/S, Denmark, acquired on 5 January 2017.

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

### 10.7 Other important events

After the reporting period had come to an end, KPS AG signed a purchase contract for the acquisition of all shares in Saphira Consulting A/S, Virum, Denmark, through its Danish subsidiary company KPS Consulting A/S. The transaction was closed effective 5 January 2017. Saphira Consulting A/S is an extremely well-qualified SAP consulting company in the Scandinavian market and has an outstanding reference base. The acquisition enables the KPS Group to further expand its leading position in the European market as a consultant and service provider for transformation projects in the fast-growing field of digitalization.

On 9 December 2016, KPS AG also applied for a listing on the Prime Standard of the Frankfurt Stock Exchange. Effective 23 December 2016, the change from General Standard to Prime Standard was completed. Compliance with very high transparency standards enhances the appeal of the KPS share for institutional investors. The listing on the Prime Standard means that KPS AG complies with one requirement for a potential listing of the KPS share in a prime index of Deutsche Börse AG.





## 11 REPORT PURSUANT TO ARTICLE 315 SECTION 4 GERMAN COMMERCIAL CODE (HGB)

### 11.1 Composition of the subscribed capital

On 30 September 2016, 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. On the basis of the authorization resolution approved by the Annual General Meeting held on 27 March 2015, the Executive Board passed a resolution to redeem seven acquired own shares with a reduction of the capital stock of the company. The redemption reduces the capital stock of the company by 7.00 euros from 34.011.007,00 euros to 34,011,000.00 euros. The capital stock is distributed over a total of 34,011,000 ordinary bearer shares without par value. On the basis of the resolution passed by the Annual General Meeting on 15 April 2016, the subscribed capital was increased by 3,401,100.00 euros to 37,412,100.00 euros by converting an amount of other retained earnings of 3,401,100.00 euros. The new shares are allocated to the shareholders in a ratio of 10:1 so that one new no-par share is received for every ten existing no-par shares. The new no-par shares carry dividend rights to a share in profits from 1 October 2015. Each share is entitled to one vote as a result of the capital increase, the portfolio of treasury shares increased by 12,124 shares.

During the year under review, the company did not acquire any of the company's own shares, and none of the company's own shares were sold. The total portfolio of own shares held by the company (treasury shares) amounted to 133,365 (previous year: 121,248) shares on the balance sheet date of 30 September 2016. The same rights and obligations are associated with all shares.

### 11.2 Restrictions on voting rights

A voting trust agreement in respect of votes at annual general meetings was in place between the shareholders Michael Tsifidaris, Dietmar Müller, Leonardo Musso and Uwe Grünewald up until 31 December 2015 for the 25,824,536 no-par shares with a nominal value of 1 euro acquired by way of contribution in kind.

The Executive Board is not aware of any other agreements between shareholders which could give rise to restrictions on voting rights or restrictions on the transfer of shares. There are no such restrictions arising from statutory legislation or the statutes of the company, insofar as the regulation defined in Article 28 sentence 1 Securities Trading Law (WpHG) is not applicable. Pursuant to this regulation, the voting right vested in shares which make up a major shareholding in the company pursuant to Articles 21 and 22 Securities Trading Law (WpHG) cannot be used during the time in which the notification obligations in respect of the company and the Federal Financial Supervisory Authority (BaFin) have not been complied with pursuant to Articles 21 Section 1 or 1a Securities Trading Law (WpHG).

### 11.3 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 2016:

| | No-par shares | In % |
|---|---|---|
| Michael Tsifidaris | 10,543,382 | 28.18 % |
| Dietmar Müller | 9,316,884 | 24.90 % |
| Leonardo Musso | 4,834,751 | 12.92 % |
| Uwe Grünewald | 4,784,057 | 12.79 % |

KPS AG did not receive any further notifications during the business year 2015/2016 relating to direct or indirect shareholdings which exceed 10 % of the voting rights. The company has not, therefore, received any notification beyond the listing outlined above which includes a shareholding in excess of 10 % of the voting rights.

C. GOVERNANCE_MANAGEMENT REPORT_INCOME STATEMENT_EARNINGS_BALANCE SHEET_CAPITAL_NOTES_DEVELOPMENT_NOTIFICATION_AUDITOR 41

### 11.4 Special rights which confer rights of control

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

### 11.5 Control of voting rights through employee shareholdings

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

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

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

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

### 11.7 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.

Authorized capital 2014/I was created in the amount of 16,371,265.00 euros on 28 March 2014 in a resolution passed by the ordinary Annual General Meeting held on that date.

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 27 March 2019 once or more than once up to a total of 16,371,265.00 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.

The Executive Board made use of this authorization on 2 July 2014 with the approval of the Supervisory Board and resolved to increase the capital stock by 1,268,476 euros from the authorized capital 2014/I against a non-cash contribution.
The authorized capital 2014/I still amounts to 15,102,789 euros even after partial utilization.

The authorized capital 2014/I was entered in the Commercial Register on 9 April 2014, and the increase in capital stock was entered on 28 July 2014.

The resolution adopted by the Annual General Meeting on 21 May 2010 and the substitution of the resolution by the Annual General Meeting held on 27 March 2015 provided the authorization to acquire and dispose of the company's own shares with the right of excluding subscription or other option rights to shares. Pursuant to this resolution, 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 when the resolution was adopted. This resolution is effective from the date of the Annual General Meeting and ends at 12 midnight on 26 March 2020. The conditions for acquisition, appropriation, and exclusion of subscription rights were explicitly regulated.

Up to the balance sheet date, a total of 640,158 (of which in the business year 2015/16: none) no-par shares were acquired and 518,910 (of which in the business year 2015/16: none) no-par shares were sold. In addition to the portfolio amounting to 121,248 no-par shares on 30 September 2015, no shares were acquired in the business year 2015/16. As a result of the reduction of the capital stock, seven own shares were redeemed so that the total portfolio was reduced to 121,241 no-par shares on the balance sheet date. As a result of the resolution on a capital increase passed by the Annual General Meeting held on 15 April 2016, the portfolio of treasury shares was increased by 12,124 no-par shares to the current total of 133,365 no-par shares. The treasury shares in the form of 12,124 no-par shares acquired free of charge as a result of the capital increase are not entered in the balance sheet because they are free shares.



### 11.8 Important agreements subject to a change of control following a takeover offer

If there is a change in control resulting from a takeover offer, the members of the Executive Board will receive a severance payment amounting to 75 % of the annual target income on the date of the contract termination if they exercise the contractually agreed special right to serve notice of termination. In this case, the Vice Presidents were granted a special right to serve notice of termination. An agreement was reached with the seller of getit - Gesellschaft für Technologie- und Informationstransfer mbH that in this case the earn-out rates for all business years which had not been complete at this point, would be paid out in the maximum amount.

## 12 SUPPLEMENTARY REPORT

### 12.1 Supplementary report for human resources

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

On 30 September 2016, the KPS Group employed a total of 417 employees (previous year: 354). This means that the workforce increased by 63 employees or 17.8 % in the business year 2015/2016. This is essentially due to the expansion of business activity. In Germany, we employ a workforce of 401 employees (previous year: 343), which is equivalent to a share of 96.2 % (previous year: 96.9 %) in the Group overall. The average number of employees in the year under review amounted to 391 (previous year: 338). The rise by 53 employees or 15,7 % is primarily based on the increase in business volume.

Personnel expenses increased by 8.0 million euros or by 20.3 % to 47.5 (previous year: 39.5) million euros in the business year 2015/2016.

### 12.2 Employee indicators

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

| | 30.09.2016 | 30.09.2015 | Change |
|---|---|---|---|
| Employees by region | | | |
| Germany | 401 | 343 | 58 |
| Switzerland | 2 | 8 | -6 |
| Denmark | 14 | 3 | 11 |
| Total | 417 | 354 | 63 |
| Employees by function | | | |
| Executive Board | 2 | 1 | 1 |
| Managing Directors | 2 | 3 | -1 |
| Consultants | 378 | 324 | 54 |
| Administration | 32 | 25 | 7 |
| Apprentices | 3 | 1 | 2 |
| Total | 417 | 354 | 63 |

Alongside the Managing Directors listed above, Members of the Executive Board of KPS AG, Mr. Dietmar Müller (in a total of seven companies) and Mr. Leonardo Musso (in a total of nine companies) have also been appointed as Managing Directors. From 30 September 2016, four persons were therefore employed as Managing Directors in the KPS Group.

### 12.3 Non-financial performance indicators

**Strong customer demand**

KPS stands for innovative methodology and a high level of expertise for implementation. On the basis of the KPS Rapid Transformation® method, our customers benefit from a high level of efficiency and project transparency. As far as possible, strategic development, process design and implementation are operated simultaneously, and this significantly reduces project run times and project costs. Company transformations undergo tangible acceleration with verified safeguarding of implementation quality.

KPS has first-class customer references in the area of retail and the consumer goods industry, in the process and manufacturing industry, and with service companies.

**Motivation of employees with an effective and inspiring management culture**

We regard human resources management as an independent function, and we expect our managers to fulfill their responsibilities. We want our management culture across the company to ensure that our employees are motivated and can progress their careers.

This management culture builds on our guiding principles: optimum customer orientation, highly developed dedication and motivation, safeguarding and improving our quality standards, and a positive working environment. However, recruiting suitable employees in the fiercely competitive job market and retaining their loyalty is an important function for our managers. This employment market is defined by a shortage of highly skilled specialist employees.

### 12.4 Expenses for public relations work

KPS incurs expenses for engaging in public relations work in the scope required and within the statutory framework.

### 12.5 Declaration on corporate governance

**Relevant corporate governance practices**

KPS aligns its corporate activities with the national legal systems of the countries in which the company is running its operations. The company has established internal regulations within the company extending beyond the statutory framework relating to the responsible corporate governance that reflect the guiding framework and governance principles within the Group. The guiding principles of the KPS Group are optimum customer orientation, highly developed dedication, and motivation, safeguarding and improving our quality standards, and creation of a positive working environment for our employees.

**Accounting principles and auditing of financial statements**

The accounts of the KPS Group are prepared in accordance with the International Financial Reporting Standards (IFRS). The individual financial statements of KPS AG are drawn up in accordance with the German Commercial Code (HGB). The auditor for the financial statements is therefore selected by the Annual General Meeting in accordance with the statutory regulations. The auditor is independent. The auditor carries out the audit of the consolidated and individual financial statements of KPS AG.

**Working procedure of the Executive Board and the Supervisory Board**

The Executive Board generally meets on a monthly basis and as necessary also comes together on an ad-hoc basis. The Supervisory Board generally meets four times a year and otherwise convenes as necessary. The Executive Board regularly informs the Supervisory Board in a timely manner and with comprehensive information about all the issues relating to corporate strategy relevant for the company, the planning, the development of business and the risks position. The Executive Board also presents to the Supervisory Board project and income planning relating to the Group for the coming business year. The Executive Board immediately informs the Supervisory Board about important events that are relevant for the assessment of the position and development of the company. No committees have been formed by the Executive Board or the Supervisory Board in view of the low number of members.

**Efficiency audit**

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

**Definition of targets for the proportion of women on the Executive Board and in management positions.**

On 1 May 2015, the "Law on Equal Representation of women and Men in Management Positions in Private Business and Public Services" came into force. This legislation imposed new obligations on the Supervisory Board and the Executive Board of KPS AG in relation to expanding the proportion of women represented in management tiers.

In accordance with the law, the Supervisory Board and the Executive Board passed resolutions defining the following objectives:

**Target for the Executive Board**

When making appointments to the Executive Board, the decisions of the Supervisory Board are governed solely by the specific competence and qualification of the individual applicant. Other characteristics such as gender were and are not relevant to this decision. However, it is important to bear in mind here that the proportion of women in management tiers is typically low in this sector. Against this background, the Supervisory Board of KPS AG passed a resolution to the effect that there are no plans to have a woman as a Member of the Executive Board before the reference date of 30 June 2017. The Supervisory Board linked this objective with the projection that over the long term, i.e. by 30 June 2022, at least one appropriately qualified woman should if possible be appointed to the Executive Board or the Supervisory Board. In light of the current composition of the Executive Board made up of two persons this would correspond to a proportion of 50 %.

**Target for the Supervisory Board**

When making proposals for election of candidates to the Supervisory Board, the decisions of the Supervisory Board of KPS AG are also governed solely by the expertise, skills and specialist experience of the candidates required to carry out the duties associated with this function. Other characteristics such as gender were and are not relevant to this decision. However, it is important to bear in mind here that the search for appropriate applicants is indeed typically very difficult in this sector so that the overall proportion of women is very low. Another factor is that the existing Supervisory Board of KPS AG presently has no women members appointed to it and the current members have been appointed for periods of office extending beyond the reference date of 30 June 2017. Against this background, the Supervisory Board of KPS AG passed a resolution to the effect that there are no plans to have a woman as a Member of the Supervisory Board before the reference date of 30 June 2017. However, the Supervisory Board linked this objective with the projection that over the long term, i.e. by 30 June 2022, at least one appropriately qualified woman should if possible be appointed to the Executive Board or the Supervisory Board. In light of the current composition of the Supervisory Board made up of three persons this would correspond to a proportion of around 33 %.

**Target for the first and second management tiers below the Executive Board**

When making appointments to the first and second management tiers below the Executive Board, the Executive Board of KPS AG is also governed solely by the specific competence and qualification of the individual applicant. Other characteristics such as gender were and are not relevant to this decision. However, it should be noted here that the proportion of women in management tiers is typically low in the sector. Against this background, the Executive Board of KPS AG passed a resolution to the effect that there are no plans to have a woman as a member of the first management tier below the Executive Board before the reference date of 30 July 2017. At the present point in time, the proportion of women in this management tier is 0 %. The Executive Board has passed a resolution defining a target of 9.5 % for the second management tier below the Executive Board, which corresponds to the proportion of women currently in the second management tier below the Executive Board on the date when the resolution was passed. The Executive Board linked this objective with the projection that over the long term, i.e. by 30 June 2022, the proportion of women in the second management tier below the Executive Board should if possible be increased to 20 %.

### 12.6 Date for the annual general meeting

The Annual General Meeting in 2017 for the business year 2015/2016 will be held in Munich on 7 April 2017.

## 13 DECLARATION BY THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD OF KPS AG ON THE RECOMMENDATIONS OF THE "GOVERNMENT COMMITTE OF THE GERMAN CORPORATE GOVERNANCE CODE" ("COMPLIANCE DECLARATION")

The Executive Board and the Supervisory Board of KPS AG declare pursuant to Article 161 Stock Corporation Law (AktG) that since the submission of the last Declaration of Compliance in January 2016, the recommendations of the German Corporate Governance Code ("Code") in the current version dated 5 May 2015 have been complied with subject to the following exceptions, and furthermore that they will be complied with in the future:

**Section 3.8 Sub-section 3:** The D&O insurance for the Supervisory Board does not have a deductible. In the opinion of the Executive Board and the Supervisory Board, the agreement of a voluntary deductible is neither appropriate nor necessary to guarantee that the members of the Supervisory Board fulfill their obligations in accordance with the defined requirements.

**Section 4.1.5:** The Executive Board expressly welcomes all efforts which act against discrimination for reasons of gender and on any other grounds and promotes diversity as appropriate. When making appointments to management positions in the company, the decisions of the Executive Board are governed solely on the basis of the qualifications held by the candidates, and it does not equate gender with any primary relevance for decision-making in this connection. The Executive Board has defined target parameters and deadlines for achieving goals for the proportion of women in the two management tiers below the Executive Board. These are published in the Declaration on Corporate Governance.

**Section 4.2.2 Sub-section 2:** The Supervisory Board does not use the ratio of compensation of the Executive Board to the compensation for the senior management and the workforce overall in relation to the issue of what level of compensation is appropriate for the Executive Board, neither is the development over time taken into account. Accordingly, the Supervisory Board does not lay down how the senior management and the relevant workforce should be defined. The corresponding recommendation of the Code appears to be not very practical and furthermore is not appropriate for guaranteeing that the compensation for the Executive Board is appropriate in every case.

**Section 4.2.3 Sub-section 2:** The variable compensation for the Executive Board does not take into account any negative developments such that real losses of income can actually occur. Given the structure of the compensation for the Executive Board, this does not appear to be necessary to ensure that the Executive Board does not enter into any inappropriate risks in the course of managing the company.

**Section 4.2.3 Sub-section 4:** The contracts for the Executive Board do not have a severance-pay cap to cover the case of premature termination of the contract. Such a rule does not appear necessary in addition to the conditions applicable under statutory regulations in the case of premature termination of contracts for the Executive Board in order to safeguard the interests of the company and its shareholders.

**Section 4.2.3 Sub-section 6:** The Chairman of the Supervisory Board has not informed the Annual General Meeting about the principles of the compensation system, and their amendment. The information provided in the annual financial statements was regarded as adequate.

**Section 4.2.4 and 4.2.5:** On 28 March 2014, the Annual General Meeting of KPS AG resolved with the necessary majority no longer to publish the information pursuant to Article 286 Section 5 German Commercial Code (HGB), Article 285 sentence 1 no. 9 letter a) sentence 5 to 9 German Commercial Code (HGB) and pursuant to Article 314 Section 2 sentence 2 German Commercial Code (HGB), Article 314 Section 1 no. 6 letter a) sentence 5 to 9 German Commercial Code (HGB). Against this background, the compensation system will also not be explained in the compensation report. This report does not contain any information on the type of fringe benefits.

**Section 5.1.2 Sub-section 1:** The Supervisory Board expressly welcomes all efforts which act against discrimination for reasons of gender and on any other grounds and promotes diversity as appropriate. When making appointments to the Executive Board, the decisions of the Supervisory Board are governed solely by the specific individual competence and qualification, other characteristics such as gender or nationality have not been relevant to this decision and will not be applicable in the future. Target parameters and deadlines relating to the proportion of women on the Executive Board and for the achievement of the target parameters have been defined which are published in the Declaration of Corporate Governance.

**Section 5.1.2 Sub-section 2:** The Supervisory Board has not defined any age limit for the Members of the Executive Board. The definition of an age limit for the Members of the Executive Board is not in the interests of the company and its shareholders since there is no compelling connection between a specific age of a Member of the Executive Board and their performance.

**Section 5.3:** No committees are formed in view of the number of Members of the Supervisory Board (three).

**Section 5.4.1 Sub-section 1 and Sub-section 2:** The composition of the Supervisory Board is presently such that the principles of diversity and potential conflicts of interest are taken into account. In view of the statutory regulations defined in the Stock Corporation Law, which describes in Article 100 Stock Corporation Law (AktG) the personal requirements for the activity as a Member of the Supervisory Board and in Article 111 Stock Corporation Law the functions of the Supervisory Board and therefore also simultaneously defines in the same way as the Code the targets for the re-election of the Supervisory Board, the Supervisory Board has refrained from designating concrete targets for the composition when the Supervisory Board is re-elected. The Supervisory Board regards as problematic the definition of an age limit for membership of the Supervisory Board based on the General Equality Law and will not provide such a definition. The Supervisory Board has defined target parameters and deadlines for the attainment of the target parameters which are published in the Declaration on Corporate Governance.

**Section 5.4.1 Sub-section 5:** The Supervisory Board does not disclose the personal and social relationships of each candidate for the company, the governance bodies of the company and a shareholder with a major interest in the company when it submits proposals for election to the Annual General Meeting. In the opinion of the Supervisory Board, the recommendation of the Code entails not insubstantial risks, and the Supervisory Board believes that complying with them would therefore not be in the interests of the company.

**Section 7.1.2:** The consolidated financial statements as at 30 September of each business year are not published within 90 days but within 120 days of the end of the relevant reporting period. The interim report is not published within 45 days but within 60 days of the end of the reporting period.

## 14 RESPONSIBILITY STATEMENT BY THE STATUTORY REPRESENTATIVES

We hereby declare to the best of our knowledge and in accordance with the accounting principles to be applied the Consolidated Financial Statements present a true and fair view of the asset situation, financial position and results of operations of the Group corresponding to the actual circumstances and the Consolidated Management Report presents a true and fair view of the performance of the business including the business result and the position of the company such that an appropriate view of the significant circumstances is conveyed, and the significant opportunities and risks of the likely development of the Group are described.

Unterföhring, 12 January 2017

The Executive Board

KPS GROUP

# BUSINESS FIGURES 2015/2016

**KPS AG Consolidated Financial Statements in accordance with IFRS**

# Income Statement

for the period from 1 October 2015 to 30 September 2016

in KEuros

| | | Note | 2015/2016 | Restated 2014/2015 |
|---|---|---|---|---|
| 1 | Revenues | 7.1 | 144,933 | 122,915 |
| 2 | Own work capitalized | 7.2 | 1,468 | 0 |
| 3 | Other operating income | 7.3 | 850 | 956 |
| 4 | Cost of materials | 7.4 | -59,889 | -51,979 |
| 5 | Personnel expenses | 7.5 | -47,505 | -39,537 |
| 6 | Other operating expenses | 7.6 | -16,601 | -12,734 |
| **7** | **Operating result before depreciation and amortization (EBITDA)** | | 23,256 | 19,621 |
| 8 | Depreciation and amortization | 7.7 | -997 | -1,036 |
| **9** | **Operating result (EBIT)** | | 22,259 | 18,585 |
| 10 | Financial income | 7.8 | 5 | 18 |
| 11 | Financial expenses | 7.8 | -95 | -448 |
| **12** | **Financial result** | | -90 | -430 |
| **13** | **Earnings before income taxes*** | | 22,169 | 18,155 |
| 14 | Income tax | 7.9 | -2,893 | -113 |
| **15** | **Earnings after income taxes** | | 19,276 | 18,042 |
| | Number of shares in thousands – basic/diluted weighted average | | 34,932 | 33,894 |

in euros

| | | Note | 2015/2016 | Restated 2014/2015 |
|---|---|---|---|---|
| | **Earnings per share** | | | |
| | – basic | 7.10 | 0.55 | 0.53 |
| | – diluted | 7.10 | 0.55 | 0.53 |

* corresponds to earnings from ordinary activities

Note: The figures for the previous year were adjusted in accordance with IAS 8, see Sub-section 6.4 in the Notes to the Consolidated Financial Statements



**KPS AG Consolidated Financial Statements in accordance with IFRS**

# Comprehensive Income

for the period from 1 October 2015 to 30 September 2016

**STATEMENT OF COMPREHENSIVE INCOME**

| in KEuros | Note | 2015/2016 | 2014/2015 Restated |
|---|---|---|---|
| Earnings after income taxes | 7.11 | 19,276 | 18,042 |
| Expenses and income recognized in equity with no effect on the income statement | 7.11 | -474 | -107 |
| Financial result | | 18,802 | 17,935 |

# Indicators for the Income Statement

| (in million euros) | 2015/2016 | 2014/2015 |
|---|---|---|
| **Revenues** | 144.9 | 122.9 |
| **EBITDA** | 23.3 | 19.6 |
| **EBITDA margin** | 16.1 % | 15.9 % |
| **EBIT** | 22.3 | 18.6 |
| **EBIT margin** | 15.4 % | 15.1 % |

Note: The figures for the previous year were adjusted in accordance with IAS 8, see Sub-section 6.4 in the Notes to the Consolidated Financial Statements

## KPS AG Consolidated Financial Statements in accordance with IFRS

# Group Balance Sheet as at 30 September 2016

## ASSETS

| in KEuros | Note | 30.09.2016 | Restated 30.09.2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **A. NON-CURRENT ASSETS** | | | |
| **I. Property, plant and equipment** | 8.1 | 1,134 | 801 |
| **II. Goodwill** | 8.2 | 30,472 | 30,472 |
| **III. Other intangible assets** | 8.2 | 2,032 | 1,176 |
| **IV. Deferred tax assets** | 8.3 | 8,015 | 8,811 |
| | | 41,653 | 41,260 |
| **B. CURRENT ASSETS** | | | |
| **I. Future receivables from production orders** | 8.5 | 174 | 3,588 |
| **II. Trade receivables** | 8.4 | 34,485 | 29,512 |
| **III. Other receivables and financial assets** | 8.6 | 1,630 | 494 |
| **IV. Entitlements to income tax rebates** | 8.7 | 0 | 475 |
| **V. Cash and cash equivalents** | 8.8 | 12,606 | 6,487 |
| **VI. Deferred tax assets** | 8.3 | 4,554 | 3,941 |
| | | 53,449 | 44,497 |
| Total assets | | 95,102 | 85,757 |

Note: The figures for the previous year were adjusted in accordance with IAS 8, see Sub-section 6.4 in the Notes to the Consolidated Financial Statements





## LIABILITIES AND SHAREHOLDERS' EQUITY

| in KEuros | Note | 30.09.2016 | Restated 30.09.2015 |
|---|---|---|---|
| **A. SHAREHOLDERS' EQUITY** | | | |
| Share in equity attributable to shareholders of KPS AG | | | |
| **I. Subscribed capital** | 8.9.1 | 37,291 | 33,890 |
| **II. Capital reserve** | 8.9.3 | -11,595 | -11,595 |
| **III. Retained earnings** | 8.9.4 | 663 | 4,064 |
| **IV. Other comprehensive income** | 8.9.5 | -944 | -469 |
| **V. Net profit** | 8.9.6 | 32,979 | 23,871 |
| Total equity | 8.8 | 58,394 | 49,761 |
| **LIABILITIES** | | | |
| **B. NON-CURRENT LIABILITIES** | | | |
| **I. Non-current provisions** | 8.10 | 1,754 | 2,556 |
| **II. Deferred tax liabilities** | 8.11 | 361 | 222 |
| | | 2,115 | 2,778 |
| **C. CURRENT LIABILITIES** | | | |
| **I. Trade liabilities** | 8.12 | 10,711 | 11,452 |
| **II. Financial liabilities** | 8.13 | 0 | 0 |
| **III. Advance payments received** | 8.14 | 145 | 2,465 |
| **IV. Tax provisions** | 8.15 | 4,033 | 3,574 |
| **V. Other provisions** | 8.16 | 10,533 | 9,649 |
| **VI. Other liabilities** | 8.17 | 8,285 | 5,555 |
| **VII. Income tax liabilities** | 8.18 | 886 | 523 |
| | | 34,593 | 33,218 |
| Total liabilities | | 36,708 | 35,996 |
| Total of shareholders' equity and liabilities | | 95,102 | 85,757 |

Note: The figures for the previous year were adjusted in accordance with IAS 8, see Sub-section 6.4 in the Notes to the Consolidated Financial Statements

**KPS AG Consolidated Financial Statements in accordance with IFRS**

# Consolidated Cash Flow Statements in accordance with IFRS

for the period from 1 October 2015 to 30 September 2016

| | in KEuros | 2015/2016 | Restated 2014/2015 |
|---|---|---|---|
| **A.** | **Current business operations** | | |
| | 1. Earnings before interest and income taxes (EBIT) | 22,259 | 18,585 |
| | 2. Depreciation of fixed assets | 997 | 1,036 |
| | 3. Change in current assets | -2,694 | -7,143 |
| | 4. Change in provisions | 884 | 606 |
| | 5. Other non-cash expenses and income | 384 | 28 |
| | 6. Change in other liabilities | -332 | 1,268 |
| | 7. Losses from asset disposals | 26 | 18 |
| | 8. Taxes paid | -1,235 | -1,381 |
| | 9. Interest paid | -42 | -134 |
| | 10. Interest received | 3 | 4 |
| | Cash outflow from current business operations | 20,250 | 12,887 |
| **B.** | **Investment activities** | | |
| | 1. Investments in property, plant and equipment | -625 | -422 |
| | 2. Investments in intangible assets | -1,588 | -19 |
| | 3. Investments in finance investments | -1,750 | -971 |
| | 4. Cash receipts from sales of assets | 0 | 1 |
| | Cash outflow from investment activities | -3,963 | -1,411 |
| **C.** | **Financial activities** | | |
| | 1. Acquisition of treasury shares | 0 | -184 |
| | 2. Dividend payouts | -10,167 | -9,489 |
| | Cash outflow from financial activities | -10,167 | -9,673 |
| **D.** | **Net change in cash funds** | **6,120** | **1,803** |
| **E.** | **Cash funds at the beginning of the period** | **6,486** | **4,683** |
| **F.** | Cash funds at the end of the period | 12,606 | 6,486 |

## COMPOSITION OF CASH FUNDS

| in KEuros | Status 30.09.2016 | Status 30.09.2015 |
|---|---|---|
| Cash in hand and bank balances | 12,606 | 6,486 |
| Bank liabilities with a term of up to three months | 0 | 0 |
| Cash funds | 12,606 | 6,486 |

Note: The figures for the previous year were adjusted in accordance with IAS 8, see Sub-section 6.4 in the Notes to the Consolidated Financial Statements

C. GOVERNANCE_MANAGEMENT REPORT_INCOME STATEMENT_EARNINGS_BALANCE SHEET_CAPITAL_NOTES_DEVELOPMENT_NOTIFICATION_AUDITOR 55

**KPS AG Consolidated Financial Statements as at 30 September 2016**

# Statement of Changes in Shareholders' Equity at KPS – IFRS

| in KEuros | Subscribed capital | Treasury shares | Total of subscribed capital | Capital reserve | Retained earning OCI | Accumulated other comprehensive income | Net profit | Equity |
|---|---|---|---|---|---|---|---|---|
| Restated as at 30.09.2014 | 34,011 | -85 | 33,926 | -11,595 | 64 | -363 | 19,462 | 41,494 |
| Acquisition of treasury shares | 0 | -36 | -36 | 0 | 0 | 0 | -144 | -180 |
| Disposal of treasury shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity transactions with shareholders | | | | | | | | |
| Dividend payout | 0 | 0 | 0 | 0 | 0 | 0 | -9,489 | -9,489 |
| Other changes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Changes recognized without affecting income | 0 | 0 | 0 | 0 | 0 | -106 | 0 | -106 |
| Group earnings | 0 | 0 | 0 | 0 | 0 | 0 | 18,042 | 18,042 |
| Allocation to retained earnings | 0 | 0 | 0 | 0 | 4,000 | 0 | -4,000 | 0 |
| Restated as at 30.09.2015 | 34,011 | -121 | 33,890 | -11,595 | 4,064 | -469 | 23,871 | 49,761 |
| Acquisition of treasury shares | 0 | -36 | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposal of treasury shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity transactions with shareholders | | | | | | | | |
| Dividend payout | 0 | 0 | 0 | 0 | 0 | 0 | -10,168 | -10,168 |
| Other changes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Changes recognized without affecting income | 0 | 0 | 0 | 0 | 0 | -475 | 0 | -475 |
| Capital increase from company funds | 3,401 | 0 | 3,401 | 0 | -3,401 | 0 | 0 | 0 |
| Group earnings | 0 | 0 | 0 | 0 | 0 | 0 | 19,276 | 19,276 |
| Allocation to retained earnings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30.09.2016 | 37,412 | -121 | 37,291 | -11,595 | 663 | -944 | 32,979 | 58,394 |

Note: The figures for the previous year were adjusted in accordance with IAS 8, see Sub-section 6.4 in the Notes to the Consolidated Financial Statements

KPS GROUP

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015/2016

## 1 GENERAL INFORMATION

The consolidated financial statements of KPS AG for the period to 30 September 2016 were prepared in accordance with the regulations of the International Financial Reporting Standards (IFRS) valid on the balance sheet date and endorsed by the European Union as issued by the international Accounting Standards Board (IASB), London, the interpretations of the IFRS Interpretations Committee (IFRIC) and observing the additional applicable commercial regulations established in sections Article 315a German Commercial Code (HGB) and the company statutes of KPS AG.

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

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

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

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

The Executive Board of KPS AG prepared the consolidated financial statements on 12 January 2017 and submitted them to the Supervisory Board, which passed a resolution on them on 25 January 2017.

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

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

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

The consolidated financial statements are prepared in euros. Unless otherwise noted, all amounts are given in thousand euros (KEuros). Roundings may lead to values in this report not adding up exactly to the specified sum and percentages given may not conform precisely to the values presented. Alongside the values for the business year 2015/2016, the equivalent year-earlier figures are given for purposes of comparison. These are presented in brackets.

The presentation is unchanged compared with the previous year with the exception of the pension provision, which was recognized in accordance with IAS 8.42. These amendments are explained under item 6.4 in accordance with IAS 8.49.

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





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

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

The consolidation is carried out within the framework of a "reverse acquisition" in accordance with IFRS 3. The economic parent company is KPS Business Transformation GmbH, which was acquired by KPS AG in a capital-in-kind takeover during the business year 2007/2008.

The pro-rata profit realization is carried out in accordance with the project progress of customer orders based on the Percentage of Completion Method (IAS 11).

Other provisions are not formed insofar as the probability of utilization is less than 50 %.

Goodwill from capital consolidation is capitalized under assets. Impairment tests are carried out annually in accordance with IFRS 3 and IAS 36).

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

## 3 EFFECTS OF NEW ACCOUNTING STANDARDS

### 3.1 International Financial Reporting Standards and interpretations to be applied mandatorily from the business year 2015/2016

The following table shows the International Financial Reporting Standards and interpretations to be applied mandatorily in the EU from the business year 2014/2015:

| Standard | Topic | Obligations to apply from | Effects on the KPS Group |
|---|---|---|---|
| **IAS 19** | Amendments - Employee benefits: Defined benefit plans: employee contributions | Business years which begin on or after 1 February 2015 | none |
| | Improvements to IFRS 2010 - 2012 | Business years which begin on or after 1 February 2015 | none |
| | Improvements to IFRS 2011 - 2013 | Business years which begin on or after 1 February 2015 | none |

### 3.2 International Financial Reporting Standards and interpretations that have been published and have to be applied in the future

The following standards and interpretations have already been adopted by the IASB, individual standards and interpretations have been endorsed by the EU but application is not mandatory for the business year 2015/2016. KPS AG will apply these standards and interpretations when their application becomes mandatory.

| Standard | Topic | Obligation to apply from | Effects on the KPS Group |
|---|---|---|---|
| **IFRS 9*** | Financial instruments | Business years which begin on or after 1 January 2018 | none |
| **IFRS 11** | Amendments: Joint arrangements - acquisitions of shares in a joint venture | Business years which begin on or after 1 January 2016 | none |
| **IFRS 10, IFRS 12 and IAS 28 *** | Amendments - Investment entities: Application of an exception in relation to consolidation | Business years which begin on or after 1 January 2016 | none |
| **IFRS 10 and IAS 28 *** | Amendments - Sales or contributions of assets between an investor and its associate or joint venture | Not yet known | none |
| **IFRS 14 *** | Regulatory deferral accounts | Business years which begin on or after 1 January 2016 | none |
| **IFRS 15 *** | Revenue from contracts with customers | Business years which begin on or after 1 January 2018 | subject to review |
| **IFRS 16 *** | Leasing | Business years which begin on or after 1 January 2019 | subject to review |
| **IAS 1** | Amendments - Presentation of financial statements: Initiative for improvement of disclosure requirements | Business years which begin on or after 1 January 2016 | subject to review |
| **IAS 7 *** | Amendments - Statement of cash flows: Improvement in disclosure requirements | Business years which begin on or after 1 January 2017 | subject to review |
| **IAS 12 *** | Amendments - Recognition of deferred tax assets for unrealized losses | Business years which begin on or after 1 January 2017 | subject to review |
| **IAS 16 and IAS 38** | Amendments - Clarification of acceptable methods of depreciation and amortization | Business years which begin on or after 1 January 2016 | none |
| **IAS 16 and IAS 41** | Amendments - Agriculture: Bearer plants | Business years which begin on or after 1 January 2016 | none |
| **IAS 27** | Amendments - Separate financial statements: Equity method in separate financial statements | Business years which begin on or after 1 January 2016 | none |
| | Improvements in IFRS 2012 - 2014 | Business years which begin on or after 1 January 2016 | individual assessment |

* Not yet endorsed by the EU





## 4 PRINCIPLES AND METHODS, AND UNCERTAINTIES ON ACCOUNT OF ESTIMATES

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

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

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

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

### 4.1 Consolidation

The consolidated financial statements are based on the annual financial statements of the consolidated companies prepared on 30 September 2016 in accordance with the accounting and valuation principles applied uniformly across the Group. The annual financial statements have been audited and approved or they were subject to an audit review in the course of the audit of the consolidated financial statements.

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

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

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

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

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

If shares in other companies are acquired this is presented as an equity transaction. This means that the difference between the acquired proportionate equity capital of other shareholders and the purchase price is offset directly with the equity capital.

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

## 4.2 Currency translation

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

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

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

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

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

| | | Average rate on balance sheet date | | Annual average rate | |
|---|---|---|---|---|---|
| | | **30.09.2016** | **30.09.2015** | **2015/2016** | **2014/2015** |
| Denmark | DKK | 7.4513 | 7.4599 | 7.4505 | 7.4541 |
| Switzerland | CHF | 1.0880 | 1.0916 | 1.0914 | 1.0979 |
| USA | US$ | 1.1165 | 1.1216 | 1.1109 | 1.1485 |





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

## 4.3 Revenues or other operating income

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

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

In the case of customer-based fixed-price orders, the sales are recognized on the basis of the Percentage of Completion Method (POC Method) in accordance with the progress of performance.

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

Provisions for rebates amounted to 822 (previous year: 126) KEuros in the business year 2015/2016.

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

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

## 4.4 Research and development expenses

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

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

During the course of the business year, development costs which meet the criteria defined in IAS 38.57 were capitalized in the amount of 1,468 (previous year: 0) KEuros. Development costs are recognized with the manufacturing costs. The developments capitalized in the business year had not yet been produced on the balance sheet date and there was therefore no amortization.

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

### 4.5 Goodwill

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

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

In the year under review, goodwill was reallocated on the basis of reporting to the management in accordance with IAS 36.87. The figures for the previous year were adjusted.

### 4.6 Other intangible assets

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

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

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

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

### 4.7 Property, plant and equipment

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

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

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

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

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

| | Years |
|---|---|
| **IT hardware** | 3 – 5 |
| **Business equipment** | 3 – 10 |

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

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

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





### 4.8 Leasing

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

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

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

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

### 4.9 Cash and cash equivalents

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

### 4.10 Financial instruments

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

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

a) Financial assets and liabilities measured at fair value through profit or loss
b) Credit balances and receivables
c) Financial liabilities measured at amortized costs.

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

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

### 4.11 Inventories

In accordance with IAS 2 (inventories), inventories are recognized as those assets which are consumed in the ordinary course of deliveries or the provision of services, advance payments on inventories. Inventories are valued at the lower value out of the manufacturing costs calculated on the basis of the average method (service-related full costs) and their net realizable value, i.e. the sales proceeds recoverable in the ordinary course of business less the estimated production and distribution costs.

### 4.12 Future receivables from production orders

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

### 4.13 Trade receivables

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

### 4.14 Income taxes

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

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

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

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

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

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

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

### 4.15 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.

### 4.16 Tax provision

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

### 4.17 Other provisions

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

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

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

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

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





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

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

### 4.18 Financial liabilities

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

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

### 4.19 Other receivables and liabilities

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

### 4.20 Company acquisitions

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 that the company first gains control. The application of the acquisition method requires certain estimates and assessments, primarily in relation to the fair value of the acquired intangible assets and property, plant and equipment, the liabilities assumed at the date of the acquisition (IFRS 13), and the useful lives of the acquired intangible assets and property, plant and equipment.
The valuation is based to a large extent on the anticipated cash inflows and outflows. Any deviations between the actual cash flows and the underlying cash inflows and outflows used in calculating fair values may exert a significant effect on the Group's future earnings.

C. GOVERNANCE_MANAGEMENT REPORT_INCOME STATEMENT_EARNINGS_BALANCE SHEET_CAPITAL_NOTES_DEVELOPMENT_NOTIFICATION_AUDITOR 69

### 4.21 Procedure used in impairment tests and its impact

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

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

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

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

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

The cost-of-capital rates used for impairment tests in 2016 and 2015 and for discounting of projected cash flows were 6.84 % (previous year: 7.64 %). When perpetual annuities are calculated, an additional growth factor of 2 % is used. Any change to the cost-of-capital rate by +/- 3 percentage points has no impact on the valuation of goodwill.

## 5 EXPLANATIONS FOR SEGMENT REPORTING

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

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

### 5.1 Management consulting/ Transformation consulting

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

### 5.2 System integration

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

### 5.3 Products/Licenses

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

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

**Segment reporting for the business year 2015/2016**

in KEuros

| Presentation by business areas | Management consulting / Transformation consulting | | System integration | | Products / Licenses | | Other | | Consolidation | | Overall | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Earnings position | 30.09.2016 | Previous year Restated | 30.09.2016 | Previous year | 30.09.2016 | Previous year | 30.09.2016 | Previous year | 30.09.2016 | Previous year | 30.09.2016 | Previous year Restated |
| Sales | 127,966 | 107,631 | 3,571 | 4,035 | 13,395 | 11,249 | 0 | 0 | 0 | 0 | 144,933 | 122,915 |
| Operating result | 29,436 | 23,666 | 968 | 531 | 3,681 | 2,393 | -10,831 | -6,969 | 0 | 0 | 23,256 | 19,621 |
| Depreciation and amortization | -781 | -797 | 0 | 0 | -80 | -96 | -135 | -143 | 0 | 0 | -997 | -1,036 |
| Interest | -79 | -128 | 1 | 1 | -1 | 0 | -10 | -303 | 0 | 0 | -90 | -430 |
| Taxes | -358 | 146 | -101 | -11 | 2 | 3 | -2,436 | -1,895 | 0 | 1.644 | -2,893 | -113 |

Note: The figures for the previous year were adjusted in accordance with IAS 8, see Sub-section 6.4

The revenues shown only include sales with external customers.

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

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

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

### 5.4 Information on geographical areas

The breakdown of revenues amounting to 144.9 (previous year: 122.9) million euros by regions provides the following picture for the business year 2015/2016: the main sales contributor was Germany with 121.1 (previous year: 107.8) million euros or 83.6 %. Sales of 23.8 (previous year: 15.1) million euros were generated abroad. The geographical allocation is made on the basis of the registered office of the client. The breakdown can be divided into the following regions: Scandinavia with a volume of 9.3 (previous year: 8.6) million euros or 6.4 %, Switzerland with 12.6 (previous year: 5.5) million euros or 8.7 %. The remaining sales revenues amounted to 1.9 (previous year: 1.0) million euros or 1.3 % and were mainly generated in other countries within the EU. These belong to the segment of managing consulting/transformation consulting.

### 5.5 Dependence on important customers

One (previous year: three) major customer in accordance with IFRS 8.34 is included in the segment "Management Consulting/Transformation Consulting", the revenues generated amount to 56.3 (previous year: 38.9) million euros.

## 6 SCOPE OF CONSOLIDATION AND SUBSIDIARIES AND AFFILIATES IN ACCORDANCE WITH IAS 8

### 6.1 Development of the scope of consolidation

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

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

| Shareholding | Registered office | Share in % | Currency | Subscribed capital 30.09.2016 (previous year) | Equity capital 30.09.2016 (previous year) | Result for the year 2015/2016 (previous year) |
|---|---|---|---|---|---|---|
| KPS Business Transformation GmbH 1.) | Unterföhring | 100 | KEuros | 500 (500) | 500 (500) | 11,856 (10,922) |
| KPS Services GmbH | Unterföhring | 100 | KEuros | 6,300 (6,300) | 7,932 (9,633) | 2,000 (8,021) |
| KPS Consulting Verwaltungs GmbH | Unterföhring | 100 | KEuros | 26 (26) | 38 (37) | 1 (1) |
| KPS Consulting GmbH & Co. KG | Unterföhring | 100 | KEuros | 5,113 (5,113) | 5,113 (5,113) | 1,204 (1,283) |
| KPS Consulting AG 5.) | Zurich/ Switzerland | 100 | KCHF | 100 (100) | 1,322 (215) | 1,107 (97) |
| KPS Solutions GmbH | Unterföhring | 100 | KEuros | 80 (80) | -1,702 (-1,780) | 79 (-217) |
| KPS digital GmbH 4.) | Dortmund | 100 | KEuros | 25 (25) | 2,554 (2,554) | 3,507 (4,733) |
| KPS Consulting A/S | Copenhagen/ Denmark | 100 | KDKK | 500 (500) | 7,386 (348) | 7,038 (-91) |
| KPS B.V. 2.) | Amsterdam/ Netherlands | 100 | KEuros | 100 (-) | 362 (-) | 262 (-) |
| KPS Consulting Inc. 3.) | Wilmington/ USA | 100 | KUSD | 0 (-) | 0 (-) | 0 (-) |

1.) The profit for the year 2015/2016 was transferred to KPS AG on account of the profit transfer agreement concluded.

2.) KPS B.V., Amsterdam, a company with restricted liability under Dutch law, was established on 30 June 2016. The capital stock amounting to 100,000 euros is fully subscribed.

3.) KPS Consulting Inc., Wilmington/USA, a company with limited liability under the law of the state of Delaware, was established on 6 June 2016. The capital stock amounting to USD 1 was paid in on 10 November 2016. The company did not carry out any consulting corresponding to the purpose of the company in the short fiscal year from 6 June to 30 September 2016.

4.) The profit for the year 2015/2016 was transferred to KPS AG on account of the profit transfer agreement concluded. getit – Gesellschaft für Technologie- und Informationstransfer mbH was renamed KPS digital GmbH with the resolution adopted on 14 September 2016.

5.) On 29 August, the shareholding of 1% held up until then in trust by the Administrative Board was assigned to KPS Consulting GmbH & Co. KG which thereby holds all the shares in KPS Consulting AG.

### 6.2. Acquisitions after the balance sheet date

Shortly before the approval of the financial statements for publication, KPS Consulting A/S, Denmark, acquired 100% of the shares in Saphira A/S, Denmark. The purchase price amounted to some 4.1 million euros. Furthermore, earn-out rates totaling a maximum of around 3.1 million euros are to be paid out over the next three years. Saphira A/S has mainly specialized in SAP consulting. Since adequately reliable financial statements were not available for Saphira A/S in time for the approval, no provisional purchase price allocation could be carried out.

### 6.3 Divestments and assets held for sale

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

### 6.4 Changes in accordance with IAS 8

Up to now, the fully insured BVG Plan of KPS Consulting AG, Switzerland, has been classified as a defined-contribution obligation pursuant to IAS 19.

The classification was therefore modified such that this is to be classified as a defined-benefit obligation.

**Segment reporting for the business year 2014/2015**

**Presentation by business areas in KEuros – Restated**

| Presentation by business areas | Management consulting / Transformation consulting | | System integration | | Products / Licenses | | Other | | Consolida-tion | | Overall | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Earnings position | 30.09.2015 restated | Previous year | 30.09.2015 | Previous year | 30.09.2015 | Previous year | 30.09.2015 | Previous year | 30.09.2015 | Previous year | 30.09.2015 restated | Previous year |
| Sales | 107,631 | 104,720 | 4,035 | 4,073 | 11,249 | 2,283 | 0 | 0 | 0 | 0 | 122,915 | 111,076 |
| Operating result | 23,666 | 21,251 | 531 | 748 | 2,393 | 69 | -6,969 | -4,587 | 0 | 0 | 19,621 | 17,481 |
| Depreciation and amortization | -797 | -642 | 0 | -4 | -96 | -19 | -143 | -128 | 0 | 0 | -1,036 | -793 |
| Interest | -128 | -84 | 1 | 1 | 0 | 0 | -303 | 270 | 0 | 0 | -430 | 187 |
| Taxes | 146 | -337 | -11 | -167 | 3 | 0 | -1,895 | -884 | 1,644 | 838 | -113 | -550 |



**Segment reporting for the business year 2014/2015**

**Original presentation by business areas in KEuros**

| Presentation by business areas | Management consulting / Transformation consulting | | System integration | | Products / Licenses | | Other | | Consolida-tion | | Overall | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Earnings position | 30.09.2015 | Previous year | 30.09.2015 | Previous year | 30.09.2015 | Previous year | 30.09.2015 | Previous year | 30.09.2015 | Previous year | 30.09.2015 | Previous year |
| Sales | 107,631 | 104,720 | 4,035 | 4,073 | 11,249 | 2,283 | 0 | 0 | 0 | 0 | 122,915 | 111,076 |
| Operating result | 23,694 | 21,251 | 531 | 748 | 2,393 | 69 | -6,969 | -4,587 | 0 | 0 | 19,649 | 17,481 |
| Depreciation and amortization | -797 | -642 | 0 | -4 | -96 | -19 | -143 | -128 | 0 | 0 | -1,036 | -793 |
| Interest | -128 | -84 | 1 | 1 | 0 | 0 | -303 | 270 | 0 | 0 | -430 | 187 |
| Taxes | 1 | -337 | -11 | -167 | 3 | 0 | -1,895 | -884 | 1,644 | 838 | -258 | -550 |

## KPS AG – Consolidated Financial Statements as at 30 September 2016

| Group Balance Sheet KPS – IFRS – KEuros | Note | 30.09.2016 | 30.09.2015 Restated | 2015 Correction | 30.09.2015 | 30.09.2014 Restated | 2014 Correction | 30.09.2014 |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| **A. NON-CURRENT ASSETS** | | | | | | | | |
| **I. Property, plant and equipment** | 8.1 | 1,134 | 801 | | 801 | 675 | | 675 |
| **II. Goodwill** | 8.2 | 30,472 | 30,472 | | 30,472 | 30,472 | | 30,472 |
| **III. Other intangible assets** | 8.2 | 2,032 | 1,176 | | 1,176 | 1,915 | | 1,915 |
| **IV. Deferred tax assets** | 8.3 | 8,015 | 8,811 | 145 | 8,666 | 10,868 | | 10,868 |
| | | 41,653 | 41,260 | 145 | 41,115 | 43,930 | 0 | 43,930 |
| **B. CURRENT ASSETS** | | | | | | | | |
| **I. Future receivables from production orders** | 8.5 | 174 | 3,588 | | 3,588 | 1,453 | | 1,453 |
| **II. Trade receivables** | 8.4 | 34,485 | 29,512 | | 29,512 | 24,507 | | 24,507 |
| **III. Other receivables and financial assets** | 8.6 | 1,630 | 494 | | 494 | 491 | | 491 |
| **IV. Entitlements to income tax rebates** | 8.7 | 0 | 475 | | 475 | 95 | | 95 |
| **V. Cash and cash equivalents** | 8.8 | 12,606 | 6,487 | | 6,487 | 8,683 | | 8,683 |
| **VI. Deferred tax assets** | 8.3 | 4,554 | 3,941 | | 3,941 | 0 | | 0 |
| | | 53,449 | 44,497 | 0 | 44,497 | 35,229 | 0 | 35,229 |
| Total assets | | 95,102 | 85,757 | 145 | 85,612 | 79,159 | 0 | 79,159 |

## GROUP BALANCE SHEET

| in KEuros | Note | 30.09.2016 | 30.09.2015 Restated | 2015 Correction | 30.09.2015 | 30.09.2014 Restated | 2014 Correction | 30.09.2014 |
|---|---|---|---|---|---|---|---|---|
| **A. SHAREHOLDERS' EQUITY** | | | | | | | | |
| Share in equity attributable to shareholders of KPS AG | | | | | | | | |
| **I. Subscribed capital** | 8.9.1 | 37,291 | 33,890 | | 33,890 | 33,926 | | 33,926 |
| **II. Capital reserve** | 8.9.3 | -11,595 | -11,595 | | -11,595 | -11,595 | | -11,595 |
| **III. Retained earnings** | 8.9.4 | 663 | 4,064 | | 4,064 | 64 | | 64 |
| **IV. Other comprehensive income** | 8.9.5 | -944 | -469 | -469 | 0 | -363 | -363 | 0 |
| **V. Net profit** | 8.9.6 | 32,979 | 23,871 | 117 | 23,754 | 19,462 | | 19,462 |
| Total equity | 8.8 | 58,394 | 49,761 | -352 | 50,113 | 41,494 | -363 | 41,857 |
| **LIABILITIES** | | | | | | | | |
| **B. NON-CURRENT LIABILITIES** | | | | | | | | |
| **I. Non-current provisions** | 8.10 | 1,754 | 2,556 | 497 | 2,059 | 3,900 | 363 | 3,537 |
| **II. Deferred tax liabilities** | 8.11 | 361 | 222 | | 222 | 127 | | 127 |
| | | 2,115 | 2,778 | 497 | 2,281 | 4,027 | 363 | 3,664 |
| **C. CURRENT LIABILITIES** | | | | | | | | |
| **I. Trade liabilities** | 8.12 | 10,711 | 11,452 | | 11,452 | 9,619 | | 9,619 |
| **II. Financial liabilities** | 8.13 | 0 | 0 | | 0 | 4,000 | | 4,000 |
| **III. Advance payments received** | 8.14 | 145 | 2,465 | | 2,465 | 1,272 | | 1,272 |
| **IV. Tax provisions** | 8.15 | 4,033 | 3,574 | | 3,574 | 2,924 | | 2,924 |
| **V. Other provisions** | 8.16 | 10,533 | 9,649 | | 9,649 | 7,350 | | 7,350 |
| **VI. Other liabilities** | 8.17 | 8,285 | 5,555 | | 5,555 | 8,283 | | 8,283 |
| **VII. Income tax liabilities** | 8.18 | 886 | 523 | | 523 | 190 | | 190 |
| | | 34,593 | 33,218 | 0 | 33,218 | 33,638 | 0 | 33,638 |
| Total liabilities | | 36,708 | 35,996 | 497 | 35,499 | 37,665 | 363 | 37,302 |
| Total of shareholders' equity and liabilities | | 95,102 | 85,757 | 145 | 85,612 | 79,159 | 0 | 79,159 |

## INCOME STATEMENT

| | in KEuros | Note | 2015/2016 | 2014/2015 Restated | 2014/2015 Correction | 2014/2015 |
|---|---|---|---|---|---|---|
| 1 | Revenues | 7.1 | 144,933 | 122,915 | 0 | 122,915 |
| 2 | Own work capitalized | 7.2 | 1,468 | 0 | 0 | 0 |
| 3 | Other operating income | 7.3 | 850 | 956 | 0 | 956 |
| 4 | Cost of materials | 7.4 | -59,889 | -51,979 | 0 | -51,979 |
| 5 | Personnel expenses | 7.5 | -47,505 | -39,537 | -28 | -39,509 |
| 6 | Other operating expenses | 7.6 | -16,601 | -12,734 | 0 | -12,734 |
| **7** | **Operating result before depreciation and amortization (EBITDA)** | | 23,256 | 19,621 | -28 | 19,649 |
| 8 | Depreciation and amortization | 7.7 | -997 | -1,036 | 0 | -1,036 |
| **9** | **Operating result (EBIT)** | | 22,259 | 18,585 | -28 | 18,613 |
| 10 | Financial income | 7.8 | 5 | 18 | 0 | 18 |
| 11 | Financial expenses | 7.8 | -95 | -448 | 0 | -448 |
| **12** | **Financial result** | | -90 | -430 | 0 | -430 |
| **13** | **Earnings before income taxes*** | | 22,169 | 18,155 | -28 | 18,183 |
| 14 | Income tax | 7.9 | -2,893 | -113 | 145 | -258 |
| **15** | **Earnings after income taxes** | | 19,276 | 18,042 | 117 | 17,925 |
| | Number of shares in thousands - basic/diluted weighted average | | 34,932 | 33,894 | | 33,894 |

| | in euros | Note | 2015/2016 | 2014/2015 Restated | 2014/2015 Correction | 2014/2015 |
|---|---|---|---|---|---|---|
| | **Earnings per share** | | | | | |
| | – basic | 7.10 | 0.55 | 0.53 | | 0.53 |
| | – diluted | 7.10 | 0.55 | 0.53 | | 0.53 |

* corresponds to earnings from ordinary activities

## COMPREHENSIVE INCOME

| in KEuros | Note | 2015/2016 | 2014/2015 Restated | 2014/2015 Correction | 2014/2015 |
|---|---|---|---|---|---|
| Earnings after income taxes | 7.11 | 19,276 | 18,042 | 117 | 17,925 |
| Expenses and income recognized in equity with no effect on the income statement | 7.11 | -474 | -107 | -107 | 0 |
| Financial result | | 18,802 | 17,935 | 10 | 17,925 |





## CONSOLIDATED CASH FLOW STATEMENT IN ACCORDANCE WITH IFRS

| | in KEuros | 2015/2016 | 2014/2015 Restated | 2014/2015 Correction | 2014/2015 |
|---|---|---|---|---|---|
| **A.** | **Current business operations** | | | | |
| | 1. Earnings before interest and income taxes (EBIT) | 22,259 | 18,585 | -28 | 18,613 |
| | 2. Depreciation of fixed assets | 997 | 1,036 | | 1,036 |
| | 3. Change in current assets | -2,694 | -7,143 | | -7,143 |
| | 4. Change in provisions | 884 | 606 | | 606 |
| | 5. Other non-cash expenses and income | 384 | 28 | 28 | 0 |
| | 6. Change in other liabilities | -332 | 1,268 | | 1,268 |
| | 7. Losses from asset disposals | 26 | 18 | | 18 |
| | 8. Taxes paid | -1,235 | -1,381 | | -1,381 |
| | 9. Interest paid | -42 | -134 | | -134 |
| | 10. Interest received | 3 | 4 | | 4 |
| | Cash outflow from current business operations | 20,250 | 12,887 | 0 | 12,887 |
| **B.** | **Investment activities** | | | | |
| | 1. Investments in property, plant and equipment | -625 | -422 | | -422 |
| | 2. Investments in intangible assets | -1,588 | -19 | | -19 |
| | 3. Investments in finance investments | -1,750 | -971 | | -971 |
| | 4. Cash receipts from sales of assets | 0 | 1 | | 1 |
| | Cash outflow from investment activities | -3,963 | -1,411 | 0 | -1,411 |
| **C.** | **Financial activities** | | | | |
| | 1. Acquisition of treasury shares | 0 | -184 | | -184 |
| | 2. Dividend payouts | -10,167 | -9,489 | | -9,489 |
| | Cash outflow from financial activities | -10,167 | -9,673 | 0 | -9,673 |
| **D.** | **Net change in cash funds** | **6,120** | **1,803** | | **1,803** |
| **E.** | **Cash funds at the beginning of the period** | **6,486** | **4,683** | | **4,683** |
| **F.** | Cash funds at the end of the period | 12,606 | 6,486 | 0 | 6,486 |

## COMPOSITION OF CASH FUNDS

| in KEuros | Status 30.09.2016 | Status 30.09.2015 |
|---|---|---|
| Cash in hand and bank balances | 12,606 | 6,486 |
| Bank liabilities with a term of up to three months | 0 | 0 |
| Cash funds | 12,606 | 6,486 |

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

in KEuros

| Restated | Subscribed capital | Treasury shares | Total of subscribed capital | Capital reserve | Retained earnings OCI | Accumulated other comprehensive income | Net profit | Equity |
|---|---|---|---|---|---|---|---|---|
| Restated as at 30.09.2014 | 34,011 | -85 | 33,926 | -11,595 | 64 | -363 | 19,462 | 41,494 |
| Acquisition of treasury shares | 0 | -36 | -36 | 0 | 0 | 0 | -144 | -180 |
| Disposal of treasury shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity transactions with shareholders | | | | | | | | |
| Dividend payout | 0 | 0 | 0 | 0 | 0 | 0 | -9,489 | -9,489 |
| Other changes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Changes recognized without affecting income | 0 | 0 | 0 | 0 | 4,000 | -106 | -4,000 | -106 |
| Group earnings | 0 | 0 | 0 | 0 | 0 | 0 | 18,042 | 18,042 |
| 30.09.2015 | 34,011 | -121 | 33,890 | -11,595 | 4,064 | -469 | 23,871 | 49,761 |

in KEuros

| Originally recognized | Subscribed capital | Treasury shares | Total of subscribed capital | Capital reserve | Retained earnings OCI | Accumulated other comprehensive income | Net profit | Equity |
|---|---|---|---|---|---|---|---|---|
| 30.09.2014 | 34,011 | -85 | 33,926 | -11,595 | 64 | 0 | 19,462 | 41,857 |
| Acquisition of treasury shares | 0 | -36 | -36 | 0 | 0 | 0 | -144 | -180 |
| Disposal of treasury shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity transactions with shareholders | | | | | | | | |
| Dividend payout | 0 | 0 | 0 | 0 | 0 | 0 | -9,489 | -9,489 |
| Other changes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Changes recognized without affecting income | 0 | 0 | 0 | 0 | 4,000 | 0 | -4,000 | 0 |
| Group earnings | 0 | 0 | 0 | 0 | 0 | 0 | 17,925 | 17,925 |
| Restated as at 30.09.2015 | 34,011 | -121 | 33,890 | -11,595 | 4,064 | 0 | 23,754 | 50,113 |


KPS

## 7 EXPLANATIONS FOR THE INCOME STATEMENT

### 7.1 Revenues

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

| | Year under review 2015/2016 | | Year under review 2014/2015 | |
|---|---|---|---|---|
| | KEuros | % | KEuros | % |
| Provision of services | 143,902 | 99 | 119,328 | 97 |
| Sale of goods | 71 | 0 | 6 | 0 |
| User charges | 960 | 1 | 3,581 | 3 |
| | 144,933 | 100 | 122,915 | 100 |

### 7.2 Own work capitalized

In the business year, internally generated intangible assets amounting to 1,468 (previous year: 0) KEuros were capitalized. The capitalizations are shown in the following table:

| | Year under review 2015/2016 | Year under review 2014/2015 |
|---|---|---|
| | KEuros | KEuros |
| Developments of processing streams for SAP | 1,437 | 0 |
| Internally generated software | 31 | 0 |
| Total of own work capitalized | 1,468 | 0 |

### 7.3 Other operating income

Other operating income amounts to 850 (previous year: 956) KEuros and is presented in the following table:

| in KEuros | 2015/16 | 2014/15 |
|---|---|---|
| Income from the release of provisions | 21 | 197 |
| Income from discounts | 388 | 297 |
| Income from exchange-rate differences | 118 | 405 |
| Charging of payments in kind to employees | 70 | 26 |
| Income from commissions | 200 | 0 |
| Other income | 53 | 31 |
| Total of other operating income | 850 | 956 |

### 7.4 Cost of materials

The cost of materials amounts to 59,889 (previous year: 51,979) KEuros and includes expenses for hardware and software purchased amounting to 1,233 (previous year: 3,231) KEuros and expenses for services purchased amounting to 58,656 (previous year: 48,748) KEuros.

### 7.5 Personnel expenses and employees

Personnel expenses in the year under review amount to 47,505 (previous year: 39,537) KEuros. Wages and salaries account for 42,911 (previous year: 35,595) KEuros and social security expenses account for 4,594 (previous year: 3,942) KEuros.

The expenses for defined benefit pension plans included in personnel expenses amount to 142 (previous year: 109) KEuros.

On average, 387 (previous year: 333) employees (not including Members of the Executive Board and managing directors) were employed over the year, of which 354 (previous year: 307) were consultants and 33 (previous year: 26) were administrative employees.

**Employees of the KPS Group**

| | 30.09.2016 | 30.09.2015 | Change |
|---|---|---|---|
| Employees by region | | | |
| Germany | 401 | 343 | 58 |
| Denmark | 2 | 8 | -6 |
| Switzerland | 14 | 3 | 11 |
| Employees by function | | | |
| Executive Board | 2 | 1 | 1 |
| Managing directors | 2 | 3 | -1 |
| Consultants | 378 | 324 | 54 |
| Administration | 32 | 25 | 7 |
| Apprentices | 3 | 1 | 2 |
| Total | 417 | 354 | 63 |

Note: The figures for the previous year were adjusted in accordance with IAS 8, see Sub-section 6.4

### 7.6 Other operating expenses

Other operating expenses amount to 16,601 (previous year: 12,734) KEuros and the breakdown is shown in the following table:

| in KEuros | 2015/16 | 2014/15 |
|---|---|---|
| Travel and hospitality costs | 5,002 | 3,890 |
| Purchased services | 1,950 | 1,498 |
| Vehicle costs | 2,134 | 1,850 |
| Legal and consulting expenses | 889 | 700 |
| Personnel recruitment and advanced training | 1,053 | 574 |
| Advertising and marketing expenses | 1,711 | 1,034 |
| Telephone and other communication costs | 470 | 420 |
| Premises costs | 1,138 | 879 |
| Hire costs for operating and business equipment | 574 | 457 |
| Capital market costs | 207 | 214 |
| Insurance policies | 85 | 169 |
| Currency translation differences | 168 | 303 |
| Other expenses | 1,220 | 746 |
| Total other operating expenses | 16,601 | 12,734 |

### 7.7 Depreciation and amortization
Depreciation and amortization for the business year amount to 997 (previous year: 1,036) KEuros. The breakdown of the depreciation and amortization is presented in the table showing development of fixed assets.

### 7.8 Other financial income and expenses
Other financial income amounts to 5 (previous year: 18) KEuros and results from current investments and in the previous year primarily from discounting of non-current provisions.

Other financial expenses amount to 95 (previous year: 448) KEuros and include in particular compounding of non-current provisions amounting to 8 (previous year: 234) KEuros, interest and guarantee fees to banks amounting to 26 (previous year: 133) KEuros, and interest on disputed tax arrears payments of a subsidiary company amounting to 61 (previous year: 81) KEuros.

### 7.9 Income taxes
Income taxes for the business years 2015/2016 and 2014/2015 are shown in the following table:

| in KEuros | 2015/2016 | 2014/2015 |
|---|---|---|
| Current tax expense | -2,576 | -1,902 |
| Tax revenue related to other periods | 6 | 0 |
| Deferred tax income | -323 | 1,789 |
| Income taxes | -2,893 | -113 |

Note: The figures for the previous year were adjusted in accordance with IAS 8, see Sub-section 6.4

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 2016, tax loss carryforwards amount to 50,919 (previous year: 63,057) KEuros for trade tax and 43,518 (previous year: 56,574) KEuros for corporate income tax.

When calculating deferred taxes for domestic companies an average tax rate of 30.0 % (previous year: 29.2 %) was applied, made up of corporate income tax of 16.8 % and trade tax of 13.2 %. The average Group tax rate is 30.0 % (previous year: 29.1 %) during the year under review.

The amount of unusable tax losses for which no deferred tax asset was recognized amounts to 763 (previous year: 9,529) KEuros for corporate income tax and 15,131 (previous year: 25,310) KEuros for trade tax.

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

| in KEuros | 2015/2016 | 2014/2015 |
|---|---|---|
| Net income for the year before tax | 22,169 | 18,155 |
| Income tax rate | 29.96 % | 29.06 % |
| Expected nominal tax expense | -6,642 | -5,276 |
| Tax consequences resulting from: | | |
| Tax effects from use of loss carryforwards | 3,691 | 3,401 |
| Tax effects on account of goodwill write-downs | -14 | -13 |
| Tax effects on account of non-deductible operating expenses and other tax modifications | 368 | -25 |
| Deferred taxes on loss carryforwards | -432 | 1,360 |
| Deferred taxes on account of HB II (commercial balance sheet II) adjustments/StB (tax balance sheet effects) | 118 | 146 |
| Tax expense related to other periods | 0 | 0 |
| Other effects | 18 | 24 |
| Actual income tax expense | -2,893 | -113 |
| **Effective tax rate** | **13.0 %** | **0.6 %** |





**Deferred tax assets and liabilities**

| in KEuros | 30.09.2016 | | 30.09.2015 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Loss carryforwards | 11,988 | 0 | 12,420 | 0 |
| Pension provision | 294 | 0 | 144 | 0 |
| Personnel provision | 126 | 266 | 0 | 145 |
| Trade receivables | 0 | 75 | 0 | 69 |
| Other provisions | 0 | 20 | 105 | 0 |
| Fixed assets | 160 | 0 | 82 | 0 |
| Other items | 1 | 0 | 1 | 8 |
| | 12,569 | 361 | 12,752 | 222 |

This item relates to IFRS differences in respect of the commercial balance sheet (II)/tax balance sheet. Deferred tax assets amounting to 8,015 (previous year: 8,811) KEuros have a term of more than one year. Out of the deferred tax liabilities, 267 (previous year: 154) KEuros are non-current and 94 (previous year: 68) KEuros are current.

Note: The figures for the previous year were adjusted in accordance with IAS 8, see Sub-section 6.4

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

On the basis of the resolution approved by the Annual General Meeting held on 15 April 2016, the subscribed capital was increased by 3,401,100.00 euros to 37,412,100.00. In the course of this capital increase, seven own shares were redeemed, the portfolio of shares held on the date of the capital increase included 12,124 shares which increase the portfolio of treasury shares. On account of the effects arising from the capital increase and the buy-back of own shares, the average number of shares in free float amounted to 34,932,525 (previous year: 33,893,616) no-par shares. By comparison with the previous year, the earnings per share were calculated as follows:

| | 2015/2016 | 2014/2015 |
|---|---|---|
| Group earnings attributable to shareholders of KPS AG in KEuros | 19,276 | 18,042 |
| Average number of shares | 34,932,525 | 33,893,616 |
| Basic/diluted earnings per share in euros | 0.55 | 0.53 |

Note: The figures for the previous year were adjusted in accordance with IAS 8, see Sub-section 6.4

## 8 EXPLANATIONS FOR THE BALANCE SHEET

### 8.1 Property, plant and equipment

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

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

### 8.2 Goodwill and other intangible assets

The item includes software and associated licenses, which were partly self-developed and also purchased against payment. On 30 September 2016, self-developed software amounting to 245 (previous year: 245) KEuros was capitalized as an asset. The self-developed software is amortized over the likely useful life of 10 years. Amortization during the year under review amounts to 93 (previous year: 93) KEuros.

In addition, during the course of the business year development costs amounting to 1,468 (previous year: 0) KEuros were capitalized. The development costs are written down as soon as the assets can be used over the likely useful life of 2 years. The completion and commencement of usefulness is anticipated during the course of 2017.

Furthermore, goodwill is recognized under intangible assets, which originate exclusively from capital consolidations. A reallocation of goodwill was carried out in accordance with reporting to the management. If the allocation had remained as in the previous year, there would have been no goodwill impairment.

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

| in KEuros | 2015/2016 | 2014/2015 |
|---|---|---|
| KPS Services GmbH | 1,158 | 1,158 |
| KPS Consulting GmbH & Co. KG | 7,791 | 7,791 |
| KPS Solutions GmbH | 345 | 345 |
| KPS digital GmbH (formerly getit GmbH) | 21,178 | 21,178 |
| Total | 30,472 | 30,472 |

### 8.3 Deferred tax assets

Deferred tax assets amount to 12,569 (previous year: 12,752) KEuros and essentially reflect the level of likely tax loss carry-forwards of KPS AG, KPS Consulting GmbH & Co. KG, KPS Services GmbH and KPS Solutions GmbH.

Note: The figures for the previous year were adjusted in accordance with IAS 8, see Sub-section 6.4

### 8.4 Trade receivables

Receivables and other assets are recognized after deduction of allowances for doubtful items. On 30 September 2016, trade receivables amount to 34,485 (previous year: 29,512) KEuros, on which specific valuation allowances amounting to 44 (previous year: 44) KEuros are formed.

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

| in KEuros | 2015/2016 | 2014/2015 |
|---|---|---|
| Balance of allowances on 01.10. | 44 | 9 |
| + Additions | 0 | 44 |
| - Utilization/release | 0 | 9 |
| Balance of allowances on 30.09. | 44 | 44 |

### 8.5 Future receivables from production orders

On the balance sheet date, receivables from production orders amounted to 174 (previous year: 3,588) KEuros, which result from a customer order with a fixed price. The revenues previously generated amount to 150 KEuros, the costs incurred amount to 84 KEuros.

### 8.6 Other receivables

Other receivables amount to 1,630 (previous year: 494) KEuros and are comprised as follows:

| in KEuros | 2015/2016 | 2014/2015 |
|---|---|---|
| Advance payments | 229 | 218 |
| Receivables from employees | 77 | 28 |
| Payments on account | 8 | 1 |
| Deposit payments | 93 | 49 |
| Money transit | 877 | 0 |
| Creditor accounts in debit | 134 | 62 |
| Other receivables | 212 | 136 |
| Total other assets | 1,630 | 494 |

Other receivables essentially relate to receivables from advance tax payments abroad amounting to 159 (previous year: 72) KEuros.

### 8.7 Entitlements to income tax rebates

On the balance sheet date, there were no entitlements arising from income tax (previous year: 475 KEuros).

### 8.8 Cash and cash equivalents

Bank balances and cash in hand amount to 12,606 (previous year: 6,487) KEuros on the balance sheet date. The development of liquid funds is shown in the cash flow statement.

### 8.9 Shareholders' equity

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

#### 8.9.1 Subscribed capital

The subscribed capital for KPS AG amounts to 37,412,100.00 (previous year: 34,011,007.00) euros on the balance sheet date and it is distributed over a total of 37,412,100 registered no-par value ordinary shares. On the basis of the authorization resolution approved by the Annual General meeting held on 27 March 2015, the Executive Board passed a resolution to redeem seven acquired own shares with a reduction of the capital stock of the company. The capital stock is reduced by 7 euros as a result of the redemption of 34,011,007.00 euros to 34,011,000.00 euros and is distributed over a total of 34,011,000 registered no-par value ordinary shares. On the basis of the resolution by the Annual General meeting on 15 April 2016, the subscribed capital was increased by 3,401,100.00 euros to 37,412,100.00 euros by converting an amount of other retained earnings of 3,401,100.00 euros. The new shares are allocated to the shareholders in a ratio of 10:1 so that one new no-par share is received for every ten existing no-par shares. The new no-par shares carry dividend rights to a share in profits from 1 October 2015. The capital stock is fully paid up.

The treasury shares acquired and held on the balance sheet date are openly deducted from the subscribed capital with the nominal value of 121,241 (previous year: 121,248) euros. As a result of the reduction of the capital stock, seven own shares were redeemed. Owing to the capital increase, the portfolio of treasury shares increased by 12,124 shares. The portfolio amounts to 133,365 shares on the balance sheet date.

#### 8.9.2 Authorized capital

Authorized capital 2014/I was created in the amount of 16,371,265.00 euros on 28 March 2014 by the resolution passed by the ordinary Annual General Meeting on that date.

As a result of this resolution, the Executive Board is empowered with the consent of the Supervisory Board to increase the capital stock up to 27 March 2019 once or more than once up to the total amount of 16,371,265.00 euros against a cash and/or non-cash contribution by the issue of new registered shares (no-par shares) with the possibility of the exclusion of shareholders' pre-emptive rights.

The Executive Board made use of this authorization on 2 July 2014 with the approval of the Supervisory Board and resolved to increase the capital stock by 1,268,476.00 euros from the authorized capital 2014/I against a non-cash contribution. The authorized capital 2014/I still amounts to 15,102,789.00 euros after partial utilization.

A change in the authorized capital 2014/I did not take place in the business year 2015/2016.

### 8.9.3 Capital reserve

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

The following table shows the development:

| in KEuros | |
|---|---|
| Balance on 01.10.2014 | -11,595 |
| Capital gain from treasury shares | 0 |
| Share premium on capital increase | 0 |
| Balance on 01.10.2015 | -11,595 |
| Capital gain from treasury shares | 0 |
| Share premium on capital increase | 0 |
| Balance on 01.10.2016 | -11,595 |

### 8.9.4 Retained earnings

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

### 8.9.5 Other earnings

Other earnings amounting to 944 (previous year: -469) KEuros comprise the revaluation of net liabilities and changes in the cash value of the obligation arising from a defined-benefit pension plan to a classifying fully insured BVG Plan of KPS Consulting AG, Zurich, Switzerland, owing to changes in the actuarial assumptions in accordance with IAS 19.

### 8.9.6 Net profit

The development of the net profit recognized on 30 September 2016 amounting to 32,979 (previous year: 23,871) KEuros is shown in the following table:

| in KEuros | 2015/2016 | 2014/2015 |
|---|---|---|
| Balance on 01.10. | 23,871 | 19,462 |
| Earnings after income taxes | 19,276 | 18,042 |
| Share premium on treasury shares | 0 | -144 |
| Allocation to other retained earnings | 0 | -4,000 |
| Dividend payout | -10,168 | -9,489 |
| Balance on 30.09. | 32,979 | 23,871 |

The payout is based on the resolution adopted by the Annual General Meeting on 15 April 2016, according to which 0.30 (previous year: 0.28) euros were paid on each dividend-bearing share. The Annual General Meeting therefore concurred with the proposal by the Executive Board.

Note: The figures for the previous year were adjusted in accordance with IAS 8, see Sub-section 6.4





### 8.9.7 Treasury shares

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

Up to the balance sheet date, a total of 640,158 (of which in the business year 2015/16: none) no-par shares were purchased and 518,910 (of which in the business year 2015/16: none) were sold. No shares were acquired in the business year for the portfolio amounting to 121,248 no-par shares on 30 September 2015. As a result of the reduction of the capital stock, seven own shares were redeemed, so that the total portfolio was reduced to 121,241 no-par shares on the balance sheet date. As a result of the resolution on a capital increase passed by the Annual General Meeting held on 15 April 2016, the portfolio of treasury shares was increased by 12,124 no-par shares to the current total of 133,365 no-par shares.

### 8.10 Non-current provisions

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

| in KEuros | 01.10.2015 | Reclassification | Release | Addition | 30.09.2016 |
|---|---|---|---|---|---|
| Provision for personnel | 341 | 0 | 0 | 430 | 771 |
| Provision for purchase price payment | 1,718 | -1,718 | 0 | 0 | 0 |
| Provision for pensions IAS 19 | 497 | 0 | 0 | 486 | 983 |
| Total | 2,556 | -1,718 | 0 | 916 | 1,754 |

Note: The figures for the previous year were adjusted in accordance with IAS 8, see Sub-section 6.4

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

The contractually agreed variable purchase price instalment for the business year 2016/2017 in respect of the purchase of the business getit GmbH was reclassified into other provisions, because the residual term is less than one year on the balance sheet date.

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

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

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

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

| | 2015/2016 | 2014/2015 |
|---|---|---|
| **Actuarial assumptions IAS 19.144** | | |
| Discount rate (DR) as at 01.10. | 0.80% | 1.50% |
| Discount rate (DR) as at 0.09. | 0.20% | 0.80% |
| Interest rate on retirement assets as at 30.09. | 0.20% | 0.80% |
| Future salary increases (SI) as at 30.09. | 2.00% | 2.00% |
| Future pension increases (PI) as at 30.09. | 0.50% | 0.50% |
| Future inflation as at 30.09. | 0.50% | 0.50% |
| Mortality tables | BVG2015 GT | BVG2015 GT |
| Date of the last actuarial valuation | 30.09.16 | 30.09.15 |
| | | |
| **1. Balance of the total which is recognized in the presentation of the asset position at the end of the period IAS 19.140** | | |
| Cash value of the defined-benefit obligation as at 30.09. | 2,514,833 | 1,411,283 |
| Capital value from plan assets as at 30.09. | 1,531,958 | 914,023 |
| Deficit/(surplus) as at 30.09. | 982,875 | 497,260 |
| Adjustment to upper limit | 0 | 0 |
| Net debt out of defined benefit pension plans (asset value) as at 30.09. | 982,875 | 497,260 |
| of which recognized as separate (asset) | 0 | 0 |
| of which recognized as separate liability | 982,875 | 497,260 |
| Date of the last actuarial valuation | 30.09.16 | 30.09.15 |
| | | |
| **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. | 2,514,833 | 1,411,283 |
| Capital value from plan assets as at 30.09. | 1,531,958 | 914,023 |
| Deficit/(surplus) as at 30.09. | 982,875 | 497,260 |
| Adjustment to upper limit | 0 | 0 |
| Net debt from defined benefit pension plans (asset) as at 30.09. | 982,875 | 497,260 |
| of which recognized as separate (asset) | 0 | 0 |
| of which recognized as separate liability | 982,875 | 497,260 |
| | | |
| **3. Components of defined benefit costs in the income statement IAS 19.140** | | |
| Current Service Cost (employer) | 142,049 | 108,742 |
| Past Service Cost | 0 | 0 |
| (Gains) and losses from plan compensation | 0 | 0 |
| Expenses from compounding of defined benefit obligations | 13,835 | 17,923 |
| Interest (income) from plan assets | -9,832 | -12,321 |
| Administrative costs plus costs for administration of plan assets | 706 | 561 |
| Components of the defined benefit costs recognized in the income statement | 146,758 | 114,904 |
| of which service and administration assets | 142,755 | 109,302 |
| of which net interest on the net debt from defined benefit pension plans (asset) | 4,004 | 5,602 |
| | | |
| **4. Components of defined benefit costs in OCI IAS 19.140** | | |
| Actuarial (gain)/loss on the cash value of the defined benefit obligation | 452,644 | 124,744 |
| Income from plan assets plus interest income | 21,773 | -17,949 |
| Change in assets of the upper limit plus interest expense/income | 0 | 0 |
| Income from income claims plus interest income | 0 | 0 |
| Other | 0 | 0 |
| Components of defined benefit costs recognized in the OCI | 474,417 | 106,794 |
| | | |
| **5. Development of the net debt from defined benefit pension plans (asset) IAS 19.140** | | |
| Net debt from defined benefit pension plans (asset) as at 01.10. | 497,260 | 362,592 |
| Components of the defined benefit costs recognized in the income statement | 146,758 | 114,904 |
| Components of the defined benefit costs recognized in the OCI | 474,417 | 106,794 |
| Contributions by the employer | -135,561 | -87,030 |
| Other | 0 | 0 |
| Components of the defined benefit costs recognized in the OCI | 982,875 | 497,260 |
| | | |
| **6. Development of the cash value of the defined benefit obligation IAS 19.140 (a), 19.141** | | |
| Cash value of the defined benefit obligation as at 01.10. | 1,411,283 | 1,121,592 |
| Expenses on the cash value of the defined benefit obligation | 13,835 | 17,923 |
| Current Service Cost (employee) | 142,049 | 108,742 |
| Contributions by plan participants | 135,561 | 80,187 |
| (Paid-out)/paid-in benefits | 358,755 | -42,464 |
| Administrative costs (plus costs for administration of plan assets) | 706 | 561 |
| Actuarial (gain)/loss on the cash value of the defined benefit obligation (settlement amount) | 452,644 | 124,744 |
| Cash value of the defined benefit obligation as at 30.09. | 2,514,833 | 1,411,283 |
| | | |
| **7. Components of actuarial gain/loss on obligations IAS 19.141** | | |
| Actuarial (gain)/loss on account of amendments to financial assumptions | 195,897 | 118,346 |
| Actuarial (gain)/loss on account of adjustments to demographic assumptions | 0 | 0 |
| Actuarial (gain)/loss on account of expectancy value adjustments | 256,747 | 6,398 |
| Actuarial (profit)/loss from the cash value of the defined-benefit obligation | 452,644 | 124,744 |



| | 2015/2016 | 2014/2015 |
|---|---|---|
| **8. Development of the capital value from plan assets IAS 19.140 (a), IAS 19.141** | | |
| Capital value from plan assets as at 01.10. | 914,023 | 759,000 |
| Interest income from plan assets | 9,832 | 12,321 |
| Contributions by the employer | 135,561 | 87,030 |
| Contributions by plan participants | 135,561 | 80,187 |
| (Paid-out)/paid-in benefits | 358,755 | -42,464 |
| Other | 0 | 0 |
| Income from plan assets plus interest income | -21,773 | 17,949 |
| Capital value from plan assets as at 30.09. | 1,531,958 | 914,023 |
| | | |
| **8a. Actual income from plan assets** | | |
| Interest income from plan assets | 9,832 | 12,321 |
| Income from plan assets plus interest income | -21,773 | 17,949 |
| Actual income from plan assets | -11,941 | 30,270 |
| | | |
| **9. Components of the economic benefit available IAS 19.141 (c)** | | |
| Economic benefit available in the form of a rebate | 0 | 0 |
| Economic benefit available in the form of a reduction in future contributions | 93,054,228 | 5,879,021 |
| Total economic benefit available | 93,054,228 | 5,879,021 |
| | | |
| **9a. Recognizable amount under IAS 19.64** | | |
| (a) Deficit/(surplus) in the defined benefit plan | | |
| - cash value of the defined benefit obligation | -2,514,833 | -1,411,283 |
| + Interest income from plan assets | 1,531,958 | 914,023 |
| Deficit/surplus (+ = asset value; - = liability) | -982,875 | -497,260 |
| | | |
| (b) Upper limit, economic benefit available | 93,054,228 | 5,879,021 |
| | | |
| Recognizable amount (lower than (a) and (b) if asset) | -982,875 | -497,260 |
| | | |
| **10. Estimate of the contributions from next year IAS 19.147 (b)** | | |
| Contributions by employers | 177,310 | 95,017 |
| Contributions by plan participants | 177,310 | 95,017 |
| | | |
| **11. Plan asset classes (non-listed price) IAS 19.142** | | |
| Cash and equivalent values | 0 | 0 |
| Equity instruments | 0 | 0 |
| Debt securities | 0 | 0 |
| Real estate | 0 | 0 |
| Derivatives | 0 | 0 |
| Investment funds | 0 | 0 |
| Asset-backed securities | 0 | 0 |
| Structured debts | 0 | 0 |
| Other | 1,531,958 | 914,023 |
| Total interest income on the capital value (non-listed price) | 1,531,958 | 914,023 |
| of which own transferable financial instruments of the entity | 0 | 0 |
| of which ownership, which is used by the entity, or other assets which are applied by it | 0 | 0 |
| | | |
| **12. Sensitivity analysis IAS 19.145** | | |
| DBO = Cash value of the defined benefit obligation, SC = Service Cost (employer) | | |
| DBO as at 30.09. with DR -0.25 % | 2,654,926 | 1,485,341 |
| DBO as at 30.09. with DR +0.25 % | 2,386,153 | 1,343,265 |
| DBO as at 30.09. with SI -0.25 % | 2,481,971 | 1,392,949 |
| DBO as at 30.09. with SI +0.25% | 2,540,884 | 1,426,975 |
| DBO as at 30.09. with life expectancy + 1 year | 2,553,812 | 1,428,369 |
| DBO as at 30.09. with life expectancy - 1 year | 2,476,187 | 1,394,353 |
| | | |
| SC of next year with DR +0.25 % | 336,043 | 130,648 |
| SC of next year with IR +0.25 % | 372,000 | 146,288 |
| | | |
| **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 | 21.1 | 19.9 |
| Weighted average term of the cash value of the defined-benefit obligation in years for active members | 21.1 | 19.9 |
| 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 | 2,514,833 | 1,411,283 |
| Cash value of the defined-benefit obligation as at 30.09. for pensioners | 0 | 0 |
| Cash value of the defined-benefit obligation as at 30.09. for suspended members | 0 | 0 |

### 8.11 Deferred tax liabilities

Deferred tax liabilities result from temporary differences between the tax balance sheet and the consolidated balance sheet and amounted to 361 (previous year: 222) KEuros.

### 8.12 Trade liabilities

Trade liabilities primarily result from purchased consulting services.

### 8.13 Financial liabilities

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

### 8.14 Advance payments received

Advance payments received amount to 145 (previous year: 2,465) KEuros and relate to 0 (previous year: 2,331) KEuros for advance payments received on purchase orders and 145 (previous year: 134) KEuros for service revenues received in advance which are accrued over future business years.

### 8.15 Tax provisions

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

| in KEuros | 01.10.2015 | Utilization | Release | Addition | 30.09.2016 |
|---|---|---|---|---|---|
| Provision for corporate income tax | 643 | -643 | 0 | 837 | 837 |
| Provision for trade tax | 2,931 | -579 | -17 | 861 | 3,196 |
| Total | 3,574 | -1,222 | -17 | 1,698 | 4,033 |

An amount of 2,325 (previous year: 2,281) KEuros is included in the provision for trade tax to take account of possible risks in conjunction with the trade tax recognition of restructuring profits received for the former autinform GmbH & Co. KG. The provision includes an amount of 997 (previous year: 935) KEuros for potential additional interest payments.

The probability and date of the utilization depend on decisions by the former local authorities for the business premises as to whether and in what amount the tax should be repaid or remitted for reasons of equity. A decision on this matter is expected in the course of 2017. If there is an entitlement, the full provision amount is cash-effective.





### 8.16 Other provisions

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

| in KEuros | 01.10.2015 | Utilization | Release | Addition | 30.09.2016 |
|---|---|---|---|---|---|
| Provision for personnel | 7,360 | -7,360 | 0 | 7,455 | 7,455 |
| Provision for outstanding invoices | 115 | -108 | 0 | 182 | 189 |
| Provision for financial statements and auditing costs | 102 | -98 | -4 | 121 | 121 |
| Other provisions | 2,072 | -100 | 0 | 796 | 2,768 |
| Total | 9,649 | -7,666 | -4 | 8,554 | 10,533 |

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

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

The provision for outstanding invoices is based on payment obligations for services received for which the amount cannot be quantified on the balance sheet date for the financial statements.
The provision associated with costs for financial statements relates to expenses in conjunction with the preparation and auditing of the annual financial statements and the consolidated financial statements.

The earn-out rate for 2016/2017 was capitalized as a liability in the amount of 1,750,000.00 euros.

### 8.17 Other liabilities

Other liabilities amount to 8,285 (previous year: 5,555) KEuros and their development is shown in the following table:

| | 30.09.2016 | | 30.09.2015 | |
|---|---|---|---|---|
| in KEuros | up to 3 months | 3-12 months | up 3 months | 3-12 months |
| Liabilities to employees | 2,638 | 0 | 904 | 0 |
| Wage and church taxes due | 853 | 0 | 863 | 0 |
| Liabilities for sales tax and other taxes | 2,470 | 0 | 1,907 | 0 |
| Social security insurance payments due | 103 | 0 | 55 | 0 |
| Earn-out 2016 | 1,555 | 0 | 1,750 | 0 |
| Other liabilities | 666 | 0 | 76 | 0 |
| Total other liabilities | 8,285 | 0 | 5,555 | 0 |

### 8.18 Liabilities for income tax

The tax liabilities amounting to 886 (previous year: 523) KEuros comprise commercial taxes for previous years.

### 8.19 Reporting on financial instruments

#### 8.19.1 Information on financial instruments by categories

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

| | Valued at the fair value | Valued at amortized costs | | Not within the scope of IFRS 7 | Balance sheet items on 30.09.2016 |
|---|---|---|---|---|---|
| in KEuros | Book value | Book value | Fair value | Book value | |
| **Current assets** | | | | | |
| Future receivables from production orders | 0 (previous year: 0) | 174 (previous year: 3,588) | 174 (previous year: 3,588) | 0 (previous year: 0) | 174 (previous year: 3,588) |
| Trade receivables | 0 (previous year: 0) | 34,485 (previous year: 29,512) | 34,485 (previous year: 29,512) | 0 (previous year: 0) | 34,485 (previous year: 29,512) |
| Other receivables and financial assets | 0 (previous year: 0) | 1,471 (previous year: 422) | 1,471 (previous year: 422) | 159 (previous year: 72) | 1,630 (previous year: 494) |
| Cash and cash equivalents | 0 (previous year: 0) | 12,606 (previous year: 6,487) | 12,606 (previous year: 6,487) | 0 (previous year: 0) | 12,606 (previous year: 6,487) |
| **Current liabilities** | | | | | |
| Financial liabilities | 0 (previous year: 0) | 0 (previous year: 0) | 0 (previous year: 0) | 0 (previous year: 0) | 0 (previous year: 0) |
| Trade liabilities | 0 (previous year: 0) | 10,711 (previous year: 11,452) | 10,711 (previous year: 11,452) | 0 (previous year: 0) | 10,711 (previous year: 11,452) |
| Other liabilities | 0 (previous year: 0) | 4,961 (previous year: 2,785) | 4,961 (previous year: 2,785) | 3,323 (previous year: 2,770) | 8,284 (previous year: 5,555) |



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

| in KEuros | Valuation category in accordance with IAS 39 and IFRS 7 | Book value 30.09.2016 | Fair value 30.09.2016 | Book value 30.09.2015 | Fair value 30.09.2015 |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Current assets | LaR | 12,606 | 12,606 | 6,487 | 6,487 |
| Future receivables from production orders | LaR | 174 | 174 | 3,588 | 3,588 |
| Trade receivables | LaR | 34,485 | 34,485 | 29,512 | 29,512 |
| Other assets | LaR | 1,458 | 1,458 | 422 | 422 |
| **Current liabilities** | | | | | |
| Current financial liabilities | FLAC | 0 | 0 | 0 | 0 |
| Trade liabilities | FLAC | 10,711 | 10,711 | 11,452 | 11,452 |
| Current other liabilities | FLAC | 4,961 | 4,961 | 2,785 | 2,785 |
| **Of which aggregated by valuation categories** | | | | | |
| Loans and Receivables (LaR) | | 48,723 | 48,723 | 40,009 | 40,009 |
| Financial Liabilities Measured at Amortized Costs (FLAC) | | 15,672 | 15,672 | 14,237 | 14,237 |

All financial instruments were valued at amortized costs for the business year 2015/2016.

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

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

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

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

| | from interest | from subsequent valuation | | | from disposal | Net result |
|---|---|---|---|---|---|---|
| in KEuros | | At fair value | Currency translation | Valuation allowance | | 2015/2016 |
| Loans and Receivables (LaR) | 3 (previous year: 4) | 0 (previous year: 0) | -50 (previous year: 102) | -2 (previous year: -44) | -14 (previous year: -84) | -63 (previous year: -22) |
| Financial Liabilities Measured at Amortized Costs (FLAC) | -23 (previous year: -135) | 0 (previous year: 0) | 0 (previous year: 0) | 0 (previous year: 0) | 0 (previous year: 0) | -23 (previous year: -135) |

Hedging instruments as defined in IFRS 7.22f. were not used in the business year 2015/2015.

### 8.19.2 Financial risk management

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

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

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

Capital management is measured on the basis of net liquidity. The company management pursues the goal of achieving a continuous and sustainable increase in corporate value. The equity of the Group corresponds to the balance sheet equity. The ratio of the equity to the balance sheet total (equity ratio) amounted to 61.4 percent as at 30 September (previous year: 58.0 percent).

### 8.19.3 Liquidity risk

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

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

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

| Previous year | Book value | Payment obligations | | |
|---|---|---|---|---|
| in KEuros | 30.09.2015 | 2015/2016 | 2016/2017 to 2018/2019 | 2019/2020 ff. |
| Financial liabilities | 0 | 0 | 0 | 0 |
| Trade liabilities | 11,452 | 11,452 | 0 | 0 |
| Other liabilities | 5,555 | 5,555 | 0 | 0 |
| Liabilities from income taxes | 523 | 523 | 0 | 0 |

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

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

### 8.19.4 Credit and default risks

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

A risk concentration for major customers pursuant to IFRS 8.34 is determined. The open receivables arising from this amount to 13,282 (previous year: 9,948) KEuros.

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

**Business year**

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

**Previous year**

| in KEuros | Neither overdue nor impaired | Overdue and not impaired | Impaired | 30.09.2015 |
|---|---|---|---|---|
| Future receivables from production orders | 3,588 | 0 | 0 | 3,588 |
| Trade receivables | 24,132 | 5,336 | 44 | 29,512 |
| Other assets | 494 | 0 | 0 | 494 |
| | 28,214 | 5,336 | 44 | 33,594 |

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





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

**Business year**

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

**Previous year**

| in KEuros | less than 30 days | 31 to 90 days | more than 90 days | 30.09.2015 |
|---|---|---|---|---|
| Other loans | 0 | 0 | 0 | 0 |
| Trade receivables | 2,529 | 2,255 | 552 | 5,336 |
| Other assets | 0 | 0 | 0 | 0 |
| | 2,529 | 2,255 | 552 | 5,336 |

### 8.19.5 Market risks

**Currency risks/Exchange rate risks**

The companies of the KPS Group conduct their business transactions almost exclusively in euros. There are therefore no major currency risks.

**Interest risks**

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

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

**Price risks**

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

### 8.20 Contingent liabilities and other financial obligations

#### 8.20.1 Contingent liabilities

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

A subordination exists in respect of KPS Consulting AG, Zurich, amounting to 738 KCHF (677 KEuros).

The company continues to generate positive results so that utilization is not anticipated.

#### 8.20.2 Financial liabilities

The following table shows the development of other financial liabilities:

| | 30.09.2016 | | | | 30.09.2015 | | | |
|---|---|---|---|---|---|---|---|---|
| in KEuros | less than 1 year | 1-5 years | More than 5 years | Total | less than 1 year | 1-5 years | More than 5 years | Total |
| Vehicle leasing | 1,238 | 1,042 | 0 | 2,280 | 1,017 | 963 | 0 | 1,980 |
| Operating and business equipment leasing | 492 | 424 | 0 | 916 | 615 | 527 | 0 | 1,142 |
| Rent | 1,037 | 1,000 | 0 | 2,037 | 892 | 1,393 | 0 | 2,285 |
| Total | 2,767 | 2,466 | 0 | 5,233 | 2,524 | 2,883 | 0 | 5,407 |

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

Payments from rental and leasing relationships, which were recorded in the reporting period as expenses, amount to 2,417 (previous year: 1,912) KEuros.





### 8.21 Risks to continuing existence as a going concern

The KPS consolidated financial statements were prepared for the business year 2015/2016 under the premise of the continuing existence of the company as a going concern. In this connection, the management is assuming a positive forecast for continuing as a going concern so that the Group can continue its business activities while complying with its payment obligations during the current and subsequent business years. Risks for the continuing existence of the KPS Group as a going concern are not identifiable at the present point in time.

## 9 EXPLANATIONS FOR THE CASH FLOW STATEMENT

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

The cash position analyzed in the cash flow statement comprises all the current liquid funds reported in the balance sheet after deduction of current bank liabilities as part of the liquid funds. At the end of the period under review, this cash position amounts to 12,606 (previous year: 6,486) KEuros. At the end of the period under review, there were no bank liabilities.

The increased net liquidity compared with the previous year is primarily due to the increased earnings for the period. The cash outflow on account of financial activity primarily results from the dividend payout in accordance with the resolution adopted by the Annual General Meeting held on 15 April 2016. The cash outflows for investments into long-term tied assets amounted to -3,963 (previous year: -1,411) KEuros. The increase in investment activity primarily results from the acquisition of Group companies in 2014, and development work amounting to 1,468 (previous year: 0) KEuros carried out.

### 9.1 Inflow/outflow from operating activities

The cash flow from operating activities increased by 7,363 KEuros to 20,250 KEuros compared with the previous year. This is due in particular to the rise in earnings for the period increased during the business year under review from 18,585 KEuros to 22,259 KEuros.

### 9.2 Inflow/outflow from investment activities

The cash flow on account of investment activities was increased by 2,552 KEuros from 1,411 KEuros to 3,963 KEuros during the course of the business year. Apart from minor investments made in items of property, plant and equipment, development work was carried out for intangible assets developed in-house during the business year.

### 9.3 Inflow/outflow from financial activities

The change in cash flow on account of financial activities by 494 KEuros to 10,167 KEuros results from the increase in dividend payment made amounting to 10,167 (previous year: 9,489) KEuros.

## 10 OTHER EXPLANATIONS AND SUPPLEMENTARY INFORMATION

### 10.1 Auditor fees

Fees amounting to 100 KEuros (previous year: 63 KEuros) for the services provided by the auditor Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, Munich, are recognized as expenses for services in connection with auditing the financial statements. The fees for services in relation to auditing the financial statements mainly comprise remuneration for auditing the consolidated financial statements and for auditing the financial statements of KPS AG and their domestic subsidiary companies. Fees for audit-related services or activities were only paid to Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft in the amounts indicated below.

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

A provision of 8 (previous year: 13) KEuros was recognized for audit services provided by the Danish subsidiary company KPS Consulting A/S in the business year.

Auditor fees

| in KEuros | 2015/2016 | 2014/2015 |
|---|---|---|
| Services for auditing the financial statements | 100 | 63 |
| Other confirmation services | 1 | 0 |
| Tax consulting services | 0 | 0 |
| Other services | 0 | 0 |
| Total | 101 | 63 |

### 10.2 Related parties

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

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

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

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





#### 10.2.1 Existing shareholders of KPS Business Transformation GmbH

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

→ Dietmar Müller: 9,316,884 shares (previous year: 8,469,895 shares); voting rights of approx. 24.90 % (previous year: approx. 24.90 %)

→ Michael Tsifidaris: 10,543,382 shares (previous year: 9,584,894 shares); voting rights of approx. 28.18 % (previous year: approx. 28.18 %)

→ Leonardo Musso: 4,834,751 shares (previous year: 4,395,229 shares); voting rights of approx. 12.92 % (previous year: approx. 12.92 %)

→ Uwe Grünewald: 4,784,057 shares (previous year: 4,349.143 shares); voting rights of approx. 12.79 % (previous year: approx. 12.79 %).

The total remuneration of existing shareholders on account of existing contracts of employment with Group companies amounts to 2,471 (previous year: 2,482) KEuros in the year under review.

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

#### 10.2.2 Executive Board:

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

→ Mr. Dietmar Müller: 9,316,884 shares (previous year: 8,469,895 shares)

→ Mr. Leonardo Musso: 4,834,751 shares (previous year: 4,395,229 shares)

The total compensation of the Executive Board reported as expenses amounted to 1,250 (previous year: 680) KEuros in the business year 2015/2016. Compensation is comprised of fixed and variable components and they are due in the short term.

Mr. Dietmar Müller is a Member of the Administrative Board of KPS Consulting AG, Zurich, Switzerland, and the Board of Directors at KPS Consulting A/S, Copenhagen, Denmark.

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

#### 10.2.3 Extended management circle

65 (previous year: 63) persons were members of the extended management circle on the balance sheet date.

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

Total compensation amounting to 17,264 (previous year: 15,382) KEuros was paid to the extended management circle for the past business year. This comprised compensation to the extended management circle with a significant shareholding in the amount of 1,221 (previous year: 1,802) KEuros and compensation to the members of the extended management circle with no significant shareholding in the amount of 16,043 (previous year: 13,581) KEuros.

A provision amounting to 771 (previous year: 341) KEuros was set aside to cover expenses for future defined benefit claims on account of the function of Vice President introduced in the business year 2012/2013 in respect of four persons of the extended management circle.

#### 10.2.4 Supervisory Board

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

Mr. Tsifidaris and Mr. Grünewald have contracts of employment with KPS Business Transformation GmbH. The expenses for the business year 2015/2016 amounted to 1,221 (previous year: 1,222) KEuros and include fixed and variable compensation elements.

A consulting contract was in place with Mr. Hans-Werner Hartmann in the year under review.

Expenses were incurred amounting to 0 (previous year: 21) KEuros.

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

#### 10.2.5 Other related persons

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

A contract of employment was in place with Mr. Markus Müller, son of Mr. Dietmar Müller (Member of the Executive Board), in the business year. The expenses paid amounted to 49 (previous year: 36) KEuros in the business year.

### 10.3 Governance bodies of the company

#### 10.3.1 Executive Board

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

- Mr. Dietmar Müller, Management Consultant, Grünwald.
- Mr. Leonardo Musso, Management Consultant, Berg.

#### 10.3.2 Supervisory Board

The Supervisory Board is unchanged from the previous year and comprises

- Mr. Michael Tsifidaris (Chairman),
  Management Consultant, Hamburg,

- M. Uwe Grünewald, (Deputy Chairman)
  Management Consultant, Leichlingen,

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

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

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

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

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

### 10.5 Exemptions

The following companies make use of the exemption regulations defined in Article 264 Section 3 and Article 264b of the German Commercial Code (HGB):

KPS Business Transformation GmbH
KPS Consulting GmbH & Co. KG
KPS digital GmbH



## 11 CORPORATE GOVERNANCE

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

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

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

## 13 RESPONSIBILITY STATEMENT BY THE STATUTORY REPRESENTATIVES

We hereby declare to the best of our knowledge and in accordance with the accounting principles to be applied the Consolidated Financial Statements present a true and fair view of the asset situation, financial position and results of operations of the Group corresponding to the actual circumstances and the Consolidated Management Report presents a true and fair view of the performance of the business including the business result and the position of the company such that an appropriate view of the significant circumstances is conveyed and the significant opportunities and risks of the likely development of the Group are described.

Unterföhring, 12 January 2017

The Executive Board
Dietmar Müller
Leonardo Musso

**KPS Group Consolidated Financial Statements in accordance with IFRS**

# Development of the fixed assets of the KPS Group (gross presentation)

| ITEM | ACQUISITION OR PRODUCTION COSTS | | | | | ACCUMULATED DEPRECIATION | | | | | BOOK VALUE | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| in KEuros | 01.10.2015 | Additions | Disposals | Transfer Integration | 30.09.2016 | 01.10.2015 | Additions | Disposals | Transfer Integration | 30.09.2016 | 30.09.2016 | 30.09.2015 |
| **I.) Intangible assets** | | | | | | | | | | | | |
| 1. Concessions, industrial property rights and similar rights and assets, and licenses in such rights and assets | | | | | | | | | | | | |
| a.) if acquired | 3,592 | 120 | 266 | 0 | 3,446 | 2,661 | 639 | 266 | 0 | 3,034 | 412 | 931 |
| b.) if internally generated | 883 | 1,468 | 0 | 0 | 2,351 | 638 | 93 | 0 | 0 | 731 | 1,620 | 245 |
| 2. Advance payments received | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Goodwill | 45,488 | 0 | 0 | 0 | 45,488 | 15,016 | 0 | 0 | 0 | 15,016 | 30,472 | 30,472 |
| Intangible assets | 49,963 | 1,588 | 266 | 0 | 51,285 | 18,315 | 732 | 266 | 0 | 18,781 | 32,504 | 31,648 |
| **II.) Property, plant and equipment** | | | | | | | | | | | | |
| 1. Business and office equipment | 2,169 | 625 | 197 | 0 | 2,597 | 1,368 | 265 | 170 | 0 | 1,463 | 1,134 | 801 |
| 2. Low-value assets | 250 | 167 | 416 | 0 | 1 | 250 | 0 | 249 | 0 | 1 | 0 | 0 |
| 3. Advance payments received | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Property, plant and equipment | 2,419 | 792 | 613 | 0 | 2,598 | 1,618 | 265 | 419 | 0 | 1,464 | 1,134 | 801 |
| Total fixed assets | 52,382 | 2,380 | 879 | 0 | 53,883 | 19,933 | 997 | 685 | 0 | 20,245 | 33,638 | 32,449 |

# Notifications

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

Pursuant to Article 21 Section 1 of the Securities Trading Law (WpHG), any shareholder who reaches, exceeds or falls below the thresholds of 3, 5, 10, 15, 20, 25, 30, 50 or 75 % of the voting rights of a company listed on the stock exchange must immediately inform the Federal Financial Supervisory Authority (BaFin) of this, but at the latest within four trading days. The company was informed of the following shareholdings as at 30 September 2016 (the corresponding percentage and voting-rights figures relate to the total number of voting rights at the time of the relevant notification and may therefore have changed in the meantime):

| Statutory notifier | Date of the disclosure | Date the threshold was reached | Reason for the notification | Percent | Votes | Vote allocation |
|---|---|---|---|---|---|---|
| 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 | - - - |
| Müller Dietmar | 04.01.2016 | 01.01.2016 | End of the voting agreement (acting in concert) at the end of the day on 31.12.2015, falling below the thresholds of 75, 50, 30, 25 % | 24.90 | 8,469,895 | - - - |
| 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 | - - - |
| Tsifidaris Michael | 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 % | 28.18 | 9,584,894 | - - - |
| Weiser Thomas, Prien | 23.06.2014 Date of publication pursuant to Article 26 Section 1 Securities Trading Law (WpHG) | - - - | - - - | 8.76 | - - - | |
| Tasaheli Beteiligungsgesellschaft mbH, Dortmund | 21.08.2016 | 04.08.2016 | Exceeding the threshold of 3 % | 4.08 | 1,387,386 | |
| Dr. Krämerkämper Thomas, Castrop-Rauxel | 21.08.2016 | 04.08.2016 | Exceeding the threshold of 3 % | 4.08 | 1,387,386 | 4.08 % by Tasaheli Beteiligungsgesellschaft mbH (Article 22 Section 1 No. 1 Securities Trading Law (WpHG) |





# Auditor's Report

We have audited the consolidated financial statements prepared by KPS AG, Unterföhring, comprising the balance sheet, the statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the consolidated financial statements, together with the group management report for the business year from October 1, 2015 to September 30, 2016. The preparation of the consolidated financial statements and group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements, and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German Commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Munich, January 16, 2017

Baker Tilly Roelfs AG
Wirtschaftsprüfungsgesellschaft
(Audit Firm)

| | |
|---|---|
| Stahl | Weilandt |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| (German Public Auditor) | (German Public Auditor) |

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