

GROUP
HALF-YEAR REPORT

KPS

1920

2019/20

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2019 20

KPS GROUP
TO THE SHAREHOLDERS

Ladies and Gentlemen, Dear Shareholders,

The coronavirus has caused the entire world to hold its breath. When the COVID-19 situation deteriorated sharply at the end of February and the outbreak was then designated as a pandemic on 12 March 2020 by the WHO, KPS responded by putting together a comprehensive package of measures for the entire KPS Group and implemented it in order to protect all its employees, customers, suppliers, partners and service providers. As a consequence of the regulations that were gradually introduced and the lockdowns instituted by governments in individual countries, processes, organization and working environment were adjusted appropriately. The Annual General Meeting, which was originally scheduled for 20 May 2020, also had to be postponed.

Since the beginning of March, most members of our team of consultants and employees have been working from their home offices. Business trips and on-site consultations have been restricted to an absolute minimum. In this situation, we are benefiting from the strategic alignment and the business model of the KPS Group, which has increasingly been focused on delivering our digitalization solutions “remotely” and as a result reducing the number of consultants on site with our customers.

The investments in our infrastructure and in the digitalization of our processes over recent years have also proved to be strategically correct and valuable in this phase. Already before the outbreak of the coronavirus pandemic, virtually all our consultants had been well equipped with the latest mobile communication devices, laptops and VPN solutions. We were therefore in a position to work together with our customers and very quickly transfer our existing projects to a streamlined remote mode and continue them virtually uninterrupted. Our project managers and our consultant team can deliver services to our usual high quality even during the crisis.

At this point, we would like to thank all our employees for their steadfast discipline, professionalism and commitment in this challenging period.

We now come to the results during the first half of the year 2019/2020. During the first six months of the business year, we generated sales amounting to 94.2 million euros. This corresponds to an increase of 3.2 %. Sales were therefore within the scope of our expectations, and this was the case even though the effects of the crisis were already beginning to impact on business performance in March 2020. In the first half of the year 2019/2020 until the outbreak of the coronavirus pandemic, KPS had invested in a number of sales and marketing initiatives which have exerted an impact on the operating result, causing a reduction in earnings. In the reporting period, EBITDA was 13.2 million euros and this corresponds to the year-earlier level.



Leonardo Musso
Founder and CEO of KPS AG

Since March 2020, exceptional conditions have applied to all companies in the various markets. In line with expectations, acquisition of new projects is difficult in the current circumstances. Nevertheless, KPS has succeeded in gaining new customers and projects. However, the outbreak of the coronavirus crisis is slowing down the start of new projects and also exerting an impact on current project planning because scheduling has to be adjusted to suit the situation. We are currently therefore not in a position to reliably assess the effects of the COVID-19 pandemic on the demand behavior of portfolio customers and potential new customers. This means in turn that we cannot predict the impact of the pandemic on the sales and earnings performance of the KPS Group.

Consequently, we withdrew the forecast setting out our expectations relating to sales and EBITDA for the current business year on 27 April 2020. Furthermore, the Executive Board of KPS is refraining from providing a new forecast for the business year 2019/2020 in the context of the COVID-19 pandemic.

This year, our company is celebrating its twentieth anniversary. Over the course of these years, we have developed from a local consultancy firm operating in Germany into a company with operations across Europe. In recent years, our service and product portfolio has been consistently expanded through successful acquisitions and strategically smart investments in our employees, tools and the further development of our methodology. Today, we are supporting companies in all their operational and functional areas and indeed their entire ecosystem, our support extends from strategy, through process and technology consultancy, and very strategically also in their digitalization projects.

KPS AG and its international branch offices have taken all necessary and currently possible measures in order to deal with the current global financial crisis in the best way possible. As the present half-year results demonstrate, KPS has a strong balance sheet, a sound financial structure and good operating profitability. I believe that as a leading specialist for digital transformation projects in Europe, the KPS Group is very well positioned to tackle the challenges and take advantage of opportunities over the coming months. The KPS Group will particularly benefit in this context from its continuing internationalization and innovative strength.

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

Munich, May 2020
Your Executive Board,

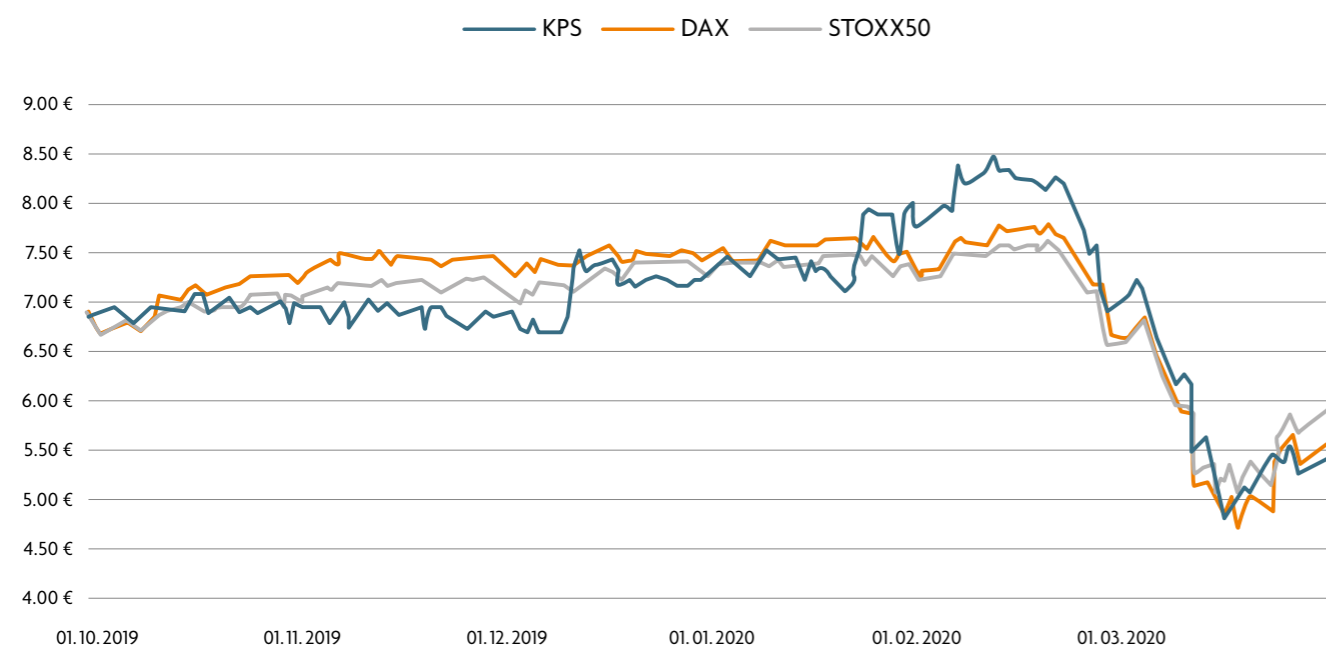
Leonardo Musso

KPS IN THE CAPITAL MARKET 2019/2020

Share price development in the first half-year of 2019/2020

In the first half-year of the business year 2019/2020, the share of KPS AG posted a minus of 21.3 % overall. The fall in the share price was primarily due to the development at the end of the reporting period. In March, the value of the share underwent a considerable fall in line with the general market trend. On 1 October 2019, the KPS share started trading at 6.90 euros. On 11 December 2019, the share price leapt by 7.0 % from 6.86 euros to 7.34 euros, and subsequently developed initially in the range of the comparative indexes. From 20 January 2020, the price of the KPS share at times performed significantly above the value of the DAX and STOXX50 indexes up to 13 March 2020. During this period, the share reached its high for the period under review of 8.42 euros on 11 February 2020 before experiencing a significant drop in value along with the indexes, and reached an absolute low within the period under review of 4.85 euros on 16 March 2020. After a modest recovery, once again in line with the general market trend, the shares ended trading on 31 March 2020 at a closing price of 5.42 euros.

During the reporting period, the average daily trading volume of the KPS share on all German stock exchanges increased to around 18,820 no-par shares (previous year: 11,570 shares). On 31 March 2020, the market capitalization of KPS AG was 202.8 million euros based on 37,412,100 shares in circulation.



Key data for the share

Sector	Software (IT-Dienstleister)
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)
Capital stock	37,412,100,00 euros
Stock exchanges	Frankfurt, Stuttgart, Hamburg, Berlin-Bremen, Düsseldorf and Munich, and XETRA
Market segment	Regulated market
Transparency level	Prime Standard
Designated Sponsor	Hauck & Aufhäuser Privatbankiers AG

Overview of the share (XETRA, Intraday)

Opening price (1 October 2019)	6.90 euros
High (11 February 2020)	8.42 euros
Low (16 March 2020)	4.85 euros
Closing price (31 March 2020)	5.42 euros
Trading volume (1 October 2019 to 31 March 2020, average trading volume)	18,820
Market capitalization (31 March 2020)	202.8 million euros

Shareholder structure

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

On 29 May 2020, the shareholder structure of KPS AG was as follows: The Chairman of the Supervisory Board Michael Tsifidaris holds 24.3 % of the shares in the company. Member of the Supervisory Board Uwe Grünewald, holds 10.8 % of the voting capital stock. Leonardo Musso, Chief Executive Officer of KPS AG, holds 11.0 % of the shares in the company. This means that 46.1 % of the voting shares are held by the current management of KPS AG. These shareholders will continue to remain closely associated with KPS AG in future as anchor shareholders and members of the governance bodies.

The former Member of the Executive Board, Dietmar Müller, currently still holds 11.1 % of the voting shares. Allianz I.A.R.D. S.A. is another investor with a shareholding above 5 % and currently holding 6.7 % of the shares. The free float amounts to 36.1 %. KPS AG is always in close contact with existing and potential investors and is committed to strategically expanding its circle of shareholders.

Annual General Meeting 2020

The ordinary Annual General Meeting of KPS AG on the performance of the business year 2018/2019 was originally scheduled to be held on 30 March 2020. Against the background of the physical distancing regulations in connection with the COVID-19 pandemic, KPS AG made use of the deadline extension pursuant to Article 1 Section 5 of the Law on Measures in Corporate, Cooperative, Association, Foundation and Residential Property Law to Combat the Effects of the COVID-19 Pandemic (Gesetz über Maßnahmen im Gesellschafts-, Genossenschafts-, Vereins-, Stiftungs- und Wohnungseigentumsrecht zur Bekämpfung der Auswirkungen der COVID-19-Pandemie) and postponed the Annual General Meeting. In line with current planning, the Annual General Meeting is scheduled to be held as an attendance event, with a provisional date of 4 September 2020.

Financial calendar 2020

24 July 2020	Announcement of the figures for the 3rd quarter of 2019/2020
Provisional date 4 September 2020	Ordinary Annual General Meeting

Analysts research

The performance of the KPS share is continuously analyzed and evaluated by the leading banks M.M. Warburg, Berenberg, Hauck and Aufhäuser, and Quirin Privatbank, and investment company GBC Research. Landesbank Baden-Württemberg (LBBW) has ceased to provide coverage.

Investor relations

As a company listed in the Prime Standard of the Frankfurt Stock Exchange, KPS AG complied with the highest standards for publicity and transparency of the Regulated Market under statutory regulations and stock-exchange rules during the reporting year 2018/2019. The company published disclosures immediately to institutional investors, financial analysts and private shareholders about current business development and important events for the share price development of the company.

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

At the beginning of 2020, a roadshow was held in Frankfurt in order to communicate personally with investors beyond the Group's regular contacts. Additional personal consultations since March have been conducted by telephone or virtually owing to the social distancing restrictions, or otherwise postponed. This is another top priority for the management of KPS, which aims to intensify these personal contacts as far as possible.

Hauck und Aufhäuser Privatbankiers AG acts as the designated sponsor for the preparation of binding bid and offer prices for appropriate liquidity, and the corresponding tradability of the KPS share.

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



HALF-YEAR
REPORT

2019/2020



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KPS GROUP
INTERIM MANAGEMENT REPORT

1 ECONOMIC REPORT

1.1 Macroeconomic development

Development of the global economy

The global economy already proved to be less dynamic in 2018, with GDP growth of 3.6 % compared with growth of 3.8 % in 2017, but according to the International Monetary Fund (IMF), global economic growth of 3.0 % in 2019 reached its lowest value since the financial crisis. Major drivers for this decline in dynamic economic activity were a marked slowdown for production in the manufacturing sector and in global trade, caused by new customs barriers and uncertainties about future trade policy.

In its forecast of October 2019, the IMF was still assuming a modest global economic upswing for 2020 and the organization projected an acceleration of global economic growth to 3.6 %.

The global spread of the novel COVID-19 virus in conjunction with the far-reaching global lockdown and containment measures instituted by governments in response to the novel coronavirus led to a sudden global supply and demand shock simultaneously, which resulted in a massive collapse in economic activity in virtually all regions of the world. Accordingly, the IMF massively corrected downward its expectations for global economic development in the year 2020.

The new basic scenario projected by the IMF in April 2020 assumes that global GDP will drop by -3 %, which will amount to the biggest economic shock since the Great Depression in the 1930s. In the basic scenario, the IMF assumes there will be two phases, comprising the containment and stabilization phase, and the recovery phase. Furthermore, the basic scenario anticipates a strong GDP recovery amounting to 5,8 % in 2021. This is assuming that at the latest in the second half-year of 2020, the global economy moves to the recovery phase. It is emphasized that the basic scenario is marked by a very high level of uncertainty depending on further development of many factors and issues that cannot be reliably forecast at the present time. These include questions relating to when adequate therapeutic means will be available for treatment, whether a vaccine can be developed and quickly deployed globally, whether there will be a second wave, the strength of the anticipated recovery, and whether transmission of the health crisis to the global financial system can be prevented. In addition to the basic scenario, the IMF has therefore also extrapolated three further scenarios based on various other assumptions, such as the absence of a recovery in 2021, and the occurrence of a second massive wave of infection in 2021. In the worst-case scenario, current calculations indicate that global economic development could be almost 8 % below the basic scenario in 2021.¹

Development in the eurozone

According to statements by the Joint Economic Forecast Project Group² and the IMF, the economy in the eurozone continued to cool down throughout 2019. Accordingly, the eurozone achieved economic growth of 1.2 % in 2019 after growth of 1.9 % was achieved in 2018. The Kiel Institute for the World Economy³ has highlighted that industry was already in recession in 2019, particularly as a result of the marked phase of weakness in the manufacturing sector in Germany. Furthermore, continuing uncertainties about Brexit and the enduring trade

conflicts, particularly between the USA and China contributed to the phase of weakness in industry during 2019. Dynamic performance continued on an upward trend in other economic areas.

The spread of the coronavirus in Europe at the beginning of 2020, and the consequent comprehensive lockdown measures introduced as a response by European governments with the aim of containing the spread of the virus, brought about a sudden deterioration in the economic picture in the eurozone and precipitated the start of a deep recession. Accordingly, the April forecast issued by the IMF predicts a collapse of economic output amounting to 7.5 % in 2020 and a powerful recovery in the subsequent year 2021 with GDP growth of 4.5 %.

Development in Germany

According to the Kiel Institute for the World Economy, 2019 was overshadowed by a downturn caused as a result of development in industry. There has been a downward trend in production over the past 17 months, and correspondingly, capacity utilization declined by 4.5 % in 2019. Consumer-related sectors and construction underwent a countervailing effect as they continued to develop on a growth trajectory.⁴ According to the IMF, GDP growth in Germany amounted to 0.6 % in 2019.

At the latest in March 2020, the economic picture underwent a marked change with intensification of the COVID-19 pandemic, and in common with other European countries a massive economic collapse and a significant rise in unemployment are expected. The IMF is assuming economic output in the amount of -7.6 % for the year 2020. At the beginning of May 2020, every fifth employee in Germany was on short-time working.

Effects of the COVID-19 pandemic

In order to battle the COVID-19 pandemic, governments have implemented similar measures in virtually all the countries of the world, although the severity of the measures has varied. In an initial phase of containment and delay of the spread of the virus and numbers of people infected, massive lockdown restrictions, prohibitions of contact, social distancing strategies, bans on opening for retail shops, the hospitality industry and other businesses were instituted. The containment measures introduced by governments resulted in a sharp interruption to global supply chains, a global increase in unemployment and an anticipated global economic collapse on a massive scale in 2020. The uncertainties about ongoing developments and impacts will continue to be high and will depend above all on improved therapeutic options and on the development of a vaccine against the coronavirus. In order to mitigate the social and economic impacts, and to prevent sliding into a depression, governments across the world have put massive support programs in place comprising in particular direct payments to private households and companies, loan guarantees and taking equity stakes. A total of 3.3 trillion US dollars in direct payments and fiscal measures, supported by a further 4.5 trillion US dollars in equity injections, guarantees and loans mean that the scope of these measures is significantly above the government support measures taken during the financial crisis.⁵ As a consequence of this, the IMF is predicting a significant increase in budget deficits for 2020. In 2019, the aggregate budget deficit held by countries amounted to -3.7 %. The support measures introduced by governments are likely to lead to an increase in the deficit to

¹ IMF, World Economic Outlook, April 2020

² Gemeinschaftsdiagnose, Wirtschaft unter Schock, April 2020

³ Institut für Weltwirtschaft, Kieler Konjunkturberichte, 2019

⁴ Institut für Weltwirtschaft, Kieler Konjunkturberichte, 2019

⁵ IMF, Policy Tracker

-10.7 % in 2020. Accordingly, government debt measured by GDP will increase dramatically. For example, the IMF is expecting an increase in the government debt ratio from 109 % in 2019 to 131 % in 2020 for the USA, from 98 % to 115 % for France, from 60 % to 69 % for Germany and from 135 % to 156 % for Italy.⁶

1.2 Sector-related framework conditions

In 2019 the German market for consulting services grew with 5.7 % to 35.7 million euros (BDU, Federal Association of German Management Consultants).⁷

According to the Federal Association of German Management Consultants the sentiment of consultant firms worsened strongly. In March, the sentiment index for the management consulting sector declined by 29.9 points to the level of 70.4 compared to the survey in December 2019.⁸

1.3 Business performance

In the first half-year of 2019/2020, KPS posted a slight increase in Group sales by 3.2 % to 94.2 million euros compared with the year-earlier period (91.3 million euros). Key drivers for the sales growth were the products/license segment which at 8.5 million euros were significantly above the year-earlier period (5.5 million euros). In the core business of Transformation Consulting (Management Consulting segment), KPS achieved sales at the year-earlier level (85.0 million euros). The sales development was within the scope of expectations of the KPS Executive Board, although the worsening of the COVID-19 pandemic in Europe and the resulting lockdown measures have exerted a slightly negative impact on sales development since the beginning of March 2020.

EBITDA at 13.1 million euros in the first half-year 2019/2020 remained virtually unchanged compared with the year-earlier period (13.2 million euros). EBITDA includes a positive effect from first-time application of IFRS 16 ("Leases") in the amount of 2.5 million euros. Owing to the development of the Spanish subsidiary company ICE, in particular, being significantly better than expected, additional earn-out provisions amounting to 1.1 million euros had to be formed (previous year: 0.7 million euros) and reported in profit or loss.

Related to the corona-pandemic KPS increased its general value adjustments by 0.8 million euros and reported in profit or less.

Without the positive effect from IFRS 16 effects from the general value adjustments and the additional earn-out charges, an adjusted EBITDA of 12.5 million euros (previous year: 13.9 million euros) would have been achieved.

⁶ IMF, World Economic Outlook, April 2020

⁷ <https://www.consulting.de/nachrichten/alle-nachrichten/consulting/nach-stabilem-wachstum-2019-schaut-die-consultingbranche-ungewiss-ins-neue-geschaftsjahr/>

⁸ https://www.bdu.de/media/354581/geschaeftsklima_q12020.pdf

Measures taken by KPS at the outbreak of the COVID-19 pandemic

KPS quickly responded to the coronavirus crisis with a comprehensive package of measures aimed at providing maximum protection for employees, external service providers and its customers. One positive here was that all consultants and virtually all employees were already equipped with laptops, mobile communications options and appropriate VPN solutions. Furthermore, an integral component of the KPS strategy is to increasingly carry out transformation projects using remote solutions or through a combined delivery model comprising consultation on the ground and tLab, i.e. delivering services from any location rather than at a local level. This allows the number of consultants on site at the customer to be significantly reduced. As a consequence, KPS was in a position to rapidly implement home office concepts for its employees in March 2020, relocate them to work in their home office and continue to provide ongoing support for, and roll-out of, ongoing customer projects. At the same time, the KPS management put in place comprehensive rules for social distancing, health protection and home office working at the beginning of March. For example, service and business journeys were reduced to an absolute minimum, rules for conduct at the office locations were introduced and comprehensive hygiene measures were adopted.

1.4 Financial position, asset situation, and results of operations

1.4.1 Results of operations for the KPS Group

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

in KEuros	2019/2020	2018/2019
Revenues	94,218	91,286
Own work capitalized	929	1,302
Other operating income	567	246
Cost of materials	-34,836	-32,240
Personnel expenses	-33,873	-33,757
Other operating expenses	-13,952	-13,606
Operating result before depreciation and amortization (EBITDA)	13,053	13,231
Depreciation and amortization (M&A adjusted)	-3,244	-563
Operating result (EBIT) adjusted	9,809	12,668
Depreciation and amortization (M&A related)	-617	-1,175
Operating result (EBIT)	9,192	11,493
Financial result	-854	-157
Earnings before income taxes *	8,338	11,336
Income tax	-2,447	-3,936
Earnings after income taxes	5,891	7,400

* corresponds to the result from ordinary activities

Revenues

In the first half-year of the business year 2019/2020, revenues rose by 3.2 % to 94.2 (previous year: 91.3) million euros by comparison with the previous year. Sales were therefore within the framework of expectations of the management, although impacts had already been experienced in business performance at the beginning of March resulting from the deterioration of the COVID-19 pandemic.

Own work capitalized

Own work capitalized amounted to 0.9 (previous year: 1.3) million over the business half-year under review. This relates to the intangible assets developed in-house (development costs).

Other operating income

As was also the case in the equivalent year-earlier period, other operating income in the reporting period includes income from operational, additional services. These include, for example, charges passed on, and income from release of provisions. Overall, other operating income decreased by comparison with the equivalent year-earlier period from 0.2 million euros to 0.6 million euros.

Cost of materials

During the period under review, the costs of materials increased by 8.1 % or 2.6 million euros to 34.8 million euros (previous year: 32.2 million euros). Accordingly, the costs of materials ratio went up from 35.3 % to 37.0 % during the reporting period by comparison with the previous year. The increase is due almost entirely to increased expenses for purchased software. These expenses have increased from 0.8 million to 2.9 million euros compared with the reporting period 2018/2019, since a major software procurement was carried out for a customer project. The costs for subcontracted services, which include the expenses for subcontracted consultants, remained virtually constant at 31 million euros.

Personnel expenses

Personnel expenses amounted to 33.9 million euros, thus remaining at the level of the previous year (33.8 million euros). The personnel expense ratio eased from 37.0 % to 36.0 %.

At 31 March 2020, 636 employees were working in the KPS Group.

Other operating expenses

Other operating expenses rose by 2.5 % to 14.0 (previous year: 13.6) million euros compared with the equivalent year-earlier reporting period. They mainly include travel expenses and vehicle operating costs, non-project-related subcontracted services and operating costs. The other operating expenses have been positively impacted by first-time application of IFRS 16 ("Leases"). If IFRS 16 had not been applied, other operating expenses would have been around 16.5 million euros and would therefore have increased by +20 % or by 2.9 million euros.

Depreciation and amortization

Depreciation and amortization were influenced by the first-time application of IFRS 16 ("Leases") in the amount of 2.3 million euros. Overall, depreciation and amortization increased by 2.2 million euros from 1.7 million euros in the first half-year 2018/2019 to 3.9 million euros in the reporting period 2019/2020. The proportion of M&A-related amortization amounted to 0.6 (previous year: 1.2) million euros.

Financial result

In the first half-year 2019/2020, the financial result of the Group was -0.9 million euros (previous year: -0.2 million euros).

Earnings after income taxes

The consolidated income for the period under review came down by 20 % from 7.4 million euros to 5.9 million euros. The tax rate was 29.3 % in the reporting period and was therefore significantly below the tax rate of 34.4 % in the equivalent year-earlier period.

EBITDA and EBIT

EBITDA at 13.1 million euros was at the level of the year-earlier period (13.2 million euros) during the first six months of 2019/2020. The EBITDA margin correspondingly amounted to 13.9 % in the first half-year 2019/2020 and was hence 0.6 percentage points below the EBITDA margin of the previous year (14.5 %). EBITDA for the current reporting period in the amount of 2.5 million euros was positively impacted as a result of first-time application of IFRS 16 ("Leases").

At the level of EBIT, the positive effect from first-time application of IFRS 16 is virtually neutralized. In the first half-year 2019/2020, KPS achieved EBIT in the amount of 9.2 million euros compared with 11.5 million euros in the year-earlier period. The reduction of 2.3 million or 20.0 % respectively is essentially based on the rise in the cost of materials ratio (37.0 % compared with 35.3 %) and higher earn-out obligations and other operating expenses compared with the year-earlier period.

Earnings per share

The diluted and basic earnings per share amounted to 0.16 euros in the first half of the business year 2019/2020 compared with 0.20 euros in the previous year. The average number of shares has not changed by comparison with the previous year and continues to be 37,412,100 no-par shares.

1.4.2 Asset situation and capital structure of the KPS Group (abbreviated version)

in KEuros	31.03.2020	30.09.2019
Non-current assets	112,097	84,653
Current assets	60,008	57,606
Total assets	172,105	142,259
Shareholders' equity	70,160	64,241
Non-current liabilities	42,602	24,077
Current liabilities	59,343	53,941
Total liabilities	101,945	78,018
Total shareholders' equity and liabilities	172,105	142,259

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 this for the individual segments and Group companies. Controlling is managed at 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 accounting and valuation principles defined by international accounting standards. Alongside sales and EBITDA, specific segment and profit-center related parameters are used as indicators for controlling.

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 reporting half-year provided the necessary liquid funds for continuing operations of KPS.

On 31 March 2020, the KPS Group had cash amounting to 6.9 (30.09.2019: 9.9) million euros. There were liabilities to banks amounting to 21.4 (30.09.2019: 17.4) million euros. This yields a direct net debt calculated on the basis of cash less liabilities to banks in the amount of 14.5 million euros on the balance sheet date 31 March 2020 (30.09.2019: 7.5 million euros).

Cash flow from operating activities was 3.0 million euros in the first half-year of the business year 2019/2020 compared with 9.4 million euros in the previous year. The fall is primarily due to the increase in trade receivables by 5.6 million euros to 46.3 million euros by the reporting date 31 March 2020 (30.09.2019: 40.7 million euros).

Cash flow from investment activities in the reporting period 2019/2020 amounted to -7.3 (previous year: -4.3) million euros. By comparison with the year-earlier period, the increase in cash outflow results from higher purchase price payments totaling 2.7 million euros in conjunction with the companies ICE Consultants Europe, S.L., Spain, Infront Consulting & Management GmbH, Hamburg and Envoy Digital Limited, United Kingdom, acquired in previous years. In the first half-year 2019/2020, investments in property, plant and equipment amounted to 1.0 million euros and were therefore 0.9 million euros higher by comparison with the year-earlier period (0.1 million euros). Investments in intangible assets fell back by 0.7 million euros to 1.0 million euros.

Cash flow from financial activities amounted to 1.3 (previous year: -0.2) million euros in the first half-year.

Asset situation

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

At the end of the reporting period 31 March 2020, the balance sheet total was 172.1 million euros, which corresponds to an increase of 29.9 million euros compared with 30 September 2019 (142.3 million euros). The increase is primarily due to the first-time application of IFRS 16 ("Leases"). On 31 March 2020, KPS had rights of use from lease agreements capitalized in the amount of 26.9 million euros. Furthermore, shareholders' equity could be increased from 64.2 million euros at the end of September 2019 to 70.2 million euros on 31 March 2020 as a result of the net profit generated during the course of the reporting period.

Development of assets

On the balance sheet date 31 March 2020, the recognized long-terms assets amounted to 112.0 (previous year: 84.4) million euros. The increase results from

first-time application of IFRS 16 ("Leases"), which led to capitalization of rights of use from lease agreements as assets in the amount of 26.9 million euros. Furthermore, fixed assets include goodwill from company acquisitions of KPS AG amounting to 62.5 (previous year: 62.5) million.

On the reporting date 31 March 2020, current assets amounting to 60.0 million euros primarily relate to trade receivables amounting to 46.3 million euros (30.09.2019: 40.8 million euros) and cash amounting to 6.9 million euros.

Development of equity

The share in equity attributable to shareholders of KPS AG increased by 6.0 million euros by comparison with the balance sheet date 30 September 2019 and posted a value of 70.2 (30.09.2019: 64.2) million euros on 31 March 2020. The equity ratio was 40.8 % at the end of the reporting period on 31 March 2020. The decrease by 4.4 percentage points compared with the balance sheet date 30 September 2019 (45.2 %) is mainly due to the first-time application of IFRS 16 ("Leases"), as a result of which the balance sheet total increased by 26.9 million euros.

Development of liabilities

Non-current liabilities were 42.6 million euros on the reporting date 31 March 2020 and this meant they were 18.5 million euros higher by comparison with the balance sheet date 30 September 2019 (24.1 million euros). The primary driver was first-time application of IFRS 16 ("Leases") as a result of which non-current leasing liabilities amounting to 22.5 million euros had to be recognized. Alongside the non-current leasing liabilities, non-current liabilities include bank loans amounting to 8.5 million euros and liabilities for earn-out payments.

Current liabilities increased by around 10 % to 59.3 million euros compared with the balance sheet date 30 September 2019, primarily owing to first-time recognition of current leasing liabilities amounting to 4.2 million euros.

Trade liabilities increased by 1.9 million euros to 12.4 (previous year: 10.5) million euros.

1.4.3 Alternative performance measures

KPS AG uses alternative performance measures (APM), which are not defined according to the IFRS, for its standard and mandatory publications. The definitions of the Alternative Performance Measures (APM) were disclosed on the website at www.kps.com/de/investor-relations.html.

1.5 Employees

Supplementary report for personnel

Our employees convince our customers through their expert knowledge and their exceptional commitment. These attributes are based on a high level of specialist qualification and continuous advanced training for our employees. We also apply these benchmarks when recruiting new personnel. 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 31 March 2020, the KPS Group employed a total of 636 employees. In the first half-year of 2019/2020, the number of employees increased by 14, compared with 618 employees at the end of the business year 2018/2019.

In Germany, we employed a workforce of 462 employees (previous year: 449). This is equivalent to a share of 72.6 % (previous year: 74.6 %) in the Group overall. The number of consultants employed in the period under review amounted to 541 (previous year: 518).

Personnel expenses amounted to 33.9 million euros at the level of the previous year (33.8 million euros). The personnel expense ratio fell back from 37.0 % to 36.0 %.

Employee indicators

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

Employees at the KPS Group

	31.03.2020	30.09.2019	Change
Employees by region			
Germany	462	449	13
Spain	93	81	12
England	43	42	1
Denmark	20	21	-1
Switzerland	6	7	-1
Austria	4	4	0
Netherlands	3	1	2
Norway	3	0	3
Sweden	2	0	2
Total	636	605	29
Employees by function			
Executive Board	1	1	0
Managing Directors	14	14	0
Consultants	541	518	23
Administration	79	71	8
Apprentices	1	1	0
Total	636	605	0

Alongside the Managing Directors listed above, the Chairman of the Executive Board of KPS AG, Mr. Leonardo Musso, has been appointed as a Managing Director (in a total of sixteen companies). From 31 March 2020, fifteen persons were therefore employed as Managing Directors in the KPS Group.

1.6 Follow-up report

Significant reportable events

Up to the date when this Group Management Report was prepared, no reportable events or changes occurred overall which affect the view of the position of the Group provided in these consolidated financial statements for the reporting period 1 October 2019 to 31 March 2020 of the Group. However, KPS refers to the ad hoc release dated 27 April 2020 in which KPS AG announced that the Executive Board is unable to reliably assess how the continuing COVID-19 pandemic will impact on the economic situation of existing and potential customers of the KPS Group and their approach to demand. Accordingly, the forecast for the current business year 2019/2020 was retracted.

Changes in the asset situation, financial position and results of operations

Since 31 March 2020, no events of particular importance have occurred which we expect to exert an influence on the asset situation, financial position and results of operations which affect the view of the position provided in the consolidated financial statements for the reporting period 1 October 2019 to 31 March 2020.

As already outlined in the section relating to significant reportable events, the KPS Executive Board has withdrawn the forecast for sales and EBITDA relating to the current business year because the impacts of the coronavirus pandemic on the demand behavior of customers cannot be assessed. Accordingly, it should be assumed that it is highly probable that the original expectations for income in the current business year 2019/2020 cannot be achieved.

Assessment of current development by the Executive Board

The KPS Group succeeded in attaining the corporate targets for the level of sales as defined by the Supervisory Board and the Executive Board for the first half of the business year 2019/2020, although the reporting period was already impacted by the coronavirus pandemic in the month of March 2020.

As a consequence of the spread of the COVID-19 pandemic in Europe and the associated lockdown and social distancing measures imposed by governments, the uncertainties and risks for current development have increased. The Executive Board immediately instituted a comprehensive package of measures in order to take account of the health and safety of employees, business partners and customers of the KPS Group and at the same time to ensure that business operations could continue as normally as possible. Already before the spread of the pandemic, virtually all employees of KPS Group were well equipped with mobile communication devices and appropriate hardware and software so that they are able to engage in mobile working from a home office. Accordingly, KPS was in a position to swiftly reorganize its processes and put in place social distancing measures for the protection of all stakeholders. The core business of KPS relates to consultancy and rolling out digital transformation projects. A large proportion of the services provided can be delivered remotely so that after implementation of social distancing measures within the KPS Group most work on customer projects could be continued without any interruption.

However, the Executive Board is unable to assess at the present time how the continuing COVID-19 pandemic will exert an impact on the economic situation of existing and potential customers, and on demand behavior. Overall, the Executive Board of KPS sees itself in a very good position in terms of finance, technology, customer structure, outstanding qualification and skills of its employees, and the product range in order to be able to master the current challenges posed by the COVID-19 pandemic.

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 the key economic institutes to retain the necessary overview of the likely development of the economy in markets relevant to us.

According to the expectations of all economic research institutes and multinational organizations, the spread of the coronavirus in Europe at the end of February will lead to a dramatic economic collapse associated with a big increase in unemployment figures. As already elucidated in previous sections, the possibility cannot be excluded that this will exert negative impacts on the approach to demand among existing and potential customers for services provided by the KPS Group. In the short term, the COVID-19 pandemic therefore presents a high risk for the development of sales and profit at the KPS Group in the short term.

We refer to the comprehensive report in the Annual Report 2018/2019 for a presentation and assessment of other individual risks. There have not been any significant changes since then.

3 OUTLOOK REPORT

The Executive Board and Supervisory Board at KPS AG have an overall positive assessment of the situation, however it is currently significantly influenced by the COVID-19 pandemic, which leads to high levels of uncertainty in relation to the approach of existing customers and potential new customers to demand. The governance bodies perceive the KPS Group to be in an excellent position to master the challenges of the future, particularly as a result of the increasing internationalization of the group of companies and the increased innovative power. Not least against this background, KPS has a robust financial structure and income position. Furthermore, KPS has a committed and highly qualified workforce, which makes a major contribution to the success of the company. Ultimately, the COVID-19 pandemic could accelerate the trend toward digitalization and this could result in new opportunities for KPS.

Since the Executive Board and the Supervisory Board of KPS are currently not in a position to reliably assess how the continuing COVID-19 pandemic will impact on the approach to demand of existing and potential customers, which could in turn affect the sales and earnings development of the KPS Group, an ad hoc release was issued on 27 April 2020 retracting the forecast for the expected sales (181-191 million euros) and the EBITDA expectation (28-36 million euros) for the business year 2019/2020. The Executive Board will refrain from issuing a new forecast for the business year 2019/2020 until further notice on account of the volatile situation and developments in conjunction with the COVID-19 pandemic.

The assessment 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 nevertheless an underlying risk that the assessment may be revised.

Unterföhring, May 2020
The Executive Board



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KPS GROUP
INTERIM FINANCIAL STATEMENTS

KPS AG Group Interim Financial Statements in accordance with IFRS

INCOME STATEMENT
for the period from 1 October 2019 to 31 March 2020

in KEuros		2019/2020	2018/2019
1	Revenues	94,218	91,286
2	Own work capitalized	929	1,302
3	Other operating income	567	246
4	Cost of materials	-34,836	-32,240
5	Personnel expenses	-33,873	-33,757
6	Other operating expenses	-13,952	-13,606
7	Operating result before depreciation and amortization (EBITDA)	13,053	13,231
8	Depreciation and amortization (M&A adjusted) *	-3,244	-563
9	Operating result (EBIT) adjusted *	9,809	12,668
10	Depreciation and amortization (M&A related) *	-617	-1,175
11	Operating result (EBIT)	9,192	11,493
12	Financial income	43	2
13	Financial expenses	-897	-159
14	Financial result	-854	-157
15	Earnings before income taxes**	8,338	11,336
16	Income tax	-2,447	-3,936
17	Earnings after income taxes	5,891	7,400
	Number of shares in thousands basic/diluted weighted average	37,412	37,412
in euros			
Earnings per share			
	– basic	0.16 €	0.20 €
	– diluted	0.16 €	0.20 €

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

** corresponds to earnings from ordinary activities

KPS AG Group Interim Financial Statements in accordance with IFRS

COMPREHENSIVE INCOME STATEMENT
for the period from 1 October 2019 to 31 March 2020

in KEuros		2019/2020	2018/2019
	Earnings after income taxes	5,891	7,400
	Actuarial gains and losses arising from defined benefit pension commitments and similar obligations	0	118
	Foreign currency translation adjustment for foreign subsidiary companies	27	66
	Comprehensive income	5,918	7,584

INDICATORS FOR THE INCOME STATEMENT

in million euros		2019/2020	2018/2019
	Revenues	94.2	91.3
	EBITDA	13.1	13.2
	EBITDA margin	13.9 %	14.5 %
	EBIT	9.2	11.5
	EBIT margin	9.8 %	12.6 %

KPS AG Group Interim Financial Statements in accordance with IFRS

GROUP BALANCE SHEET
as at 31 March 2020

ASSETS

in KEuros	31.03.2020	30.09.2019
ASSETS		
A. NON-CURRENT ASSETS		
I. Property, plant and equipment	2,376	1,653
II. Goodwill	62,546	62,546
III. Other intangible assets	15,284	15,677
IV. Rights of use from leasing agreements	26,888	0
V. Deferred tax assets	5,003	4,777
	112,097	84,653
B. CURRENT ASSETS		
I. Future receivables from production orders	5,084	0
II. Contractual assets	0	4,100
III. Trade receivables	46,291	40,740
IV. Other receivables and financial assets	607	1,889
V. Entitlements to income tax rebates	1,123	1,022
VI. Cash and cash equivalents	6,903	9,855
	60,008	57,606
Total assets	172,105	142,259

LIABILITIES AND SHAREHOLDERS' EQUITY

in KEuro	31.03.2020	30.09.2019
A. SHAREHOLDERS' EQUITY		
Share in equity attributable to shareholders of KPS AG		
I. Subscribed capital	37,412	37,412
II. Capital reserve	-10,222	-10,222
III. Retained earnings	663	663
IV. Other comprehensive income	-337	-364
V. Group net profit	42,644	36,752
Total equity	70,160	64,241
LIABILITIES		
B. NON-CURRENT LIABILITIES		
I. Non-current provisions	3,903	3,653
II. Other non-current provisions	5,925	10,155
III. Non-current financial liabilities	8,600	8,600
IV. Non-current leasing liabilities	22,502	0
V. Deferred tax liabilities	1,672	1,669
	42,602	24,077
C. CURRENT LIABILITIES		
I. Trade liabilities	12,415	10,523
II. Financial liabilities	12,800	8,805
III. Advance payments received	259	0
IV. Contractual liabilities	174	174
V. Other provisions	10,110	11,854
VI. Other liabilities	14,845	17,197
VII. Current leasing liabilities	4,218	0
VIII. Income tax liabilities	4,522	5,388
	59,343	53,941
Total liabilities	101,945	78,018
Total shareholders' equity and liabilities	172,105	142,259
Equity ratio	40.8 %	45.2 %

KPS AG Group Interim Financial Statements in accordance with IFRS

CONSOLIDATED CASH FLOW STATEMENT
for the period from 1 October 2019 to 31 March 2020

in KEuros	2019/2020	2018/2019
A. Current business operations		
Earnings before interest and income tax (EBIT)	9,192	11,493
Depreciation of fixed assets	3,861	1,738
Change in current assets	-6,088	-72
Change in provisions	-1,744	609
Other non-cash expenses and income	2,326	1,004
Change in other liabilities	-943	-3,138
Losses from asset disposals	26	0
Taxes paid	-3,640	-2,226
Interest received	43	3
Cash inflow/outflow from business operations	3,033	9,411
B. Investment activities		
Investments in property, plant and equipment	-950	-112
Investments in intangible assets	-1,013	-1,684
Investments in the acquisition of ICE	-1,984	-1,984
Investments in the acquisition of Infront	-2,380	0
Investments in the acquisition of Envoy	-945	-563
Cash receipts from the sale of assets	0	0
Cash inflow/outflow from investment activities	-7,272	-4,343
C. Financial activities		
Interest paid	-177	-164
Interest for leasing liabilities	-74	0
Cash receipts from taking out loans	3,995	0
Payments for the settlement of loans	0	0
Payments for the settlement of leasing liabilities	-2,457	0
Dividend payouts	0	0
Cash inflow/outflow from financial activities	1,287	-164
D. Net change in cash funds	-2,952	4,904
E. Cash funds at the beginning of the period	9,855	4,084
F. Consolidation-related change in cash funds	0	0
G. Cash funds at the end of the period	6,903	8,988

COMPOSITION OF CASH FUNDS

in KEuros	Balance 31.03.2020	Balance 31.03.2019
Cash in hand and bank balances	6,903	8,988
Cash funds	6,903	8,988

KPS AG Group Interim Financial Statements in accordance with IFRS

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in KEuros	Subscribed capital	Treasury shares	Total of subscribed capital
30.09.2018	37,412	0	37,412
Acquisition of treasury shares	0	0	0
Disposal of treasury shares	0	0	0
Equity transactions with shareholders			
Dividend payout	0	0	0
Other changes	0	0	0
Changes recorded with no effect on income	0	0	0
Group earnings	0	0	0
Transfer to retained earnings	0	0	0
31.03.2019	37,412	0	37,412
Acquisition of treasury shares	0	0	0
Disposal of treasury shares	0	0	0
Equity transactions with shareholders			
Dividend payout	0	0	0
Other changes	0	0	0
Changes recorded with no effect on income	0	0	0
Group earnings	0	0	0
Transfer to retained earnings	0	0	0
30.09.2019	37,412	0	37,412
Acquisition of treasury shares	0	0	0
Disposal of treasury shares	0	0	0
Equity transactions with shareholders			
Dividend payout	0	0	0
Other changes	0	0	0
Changes recorded with no effect on income	0	0	0
Group earnings	0	0	0
Transfer to retained earnings	0	0	0
31.03.2020	37,412	0	37,412

ACCUMULATED OTHER COMPREHENSIVE INCOME							
Capital reserve	Retained earnings OCI	Currency translation differences	Pension commitments	Net profit	Equity		
-10,222	663	51	-478	37,654	65,080		
0	0	0	0	0	0		
0	0	0	0	0	0		
0	0	0	0	0	0		
0	0	66	118	0	184		
0	0	0	0	7,400	7,400		
0	0	0	0	0	0		
-10,222	663	117	-360	45,054	72,664		
0	0	0	0	0	0		
0	0	0	0	0	0		
0	0	0	0	-13,094	-13,094		
0	0	0	0	0	0		
0	0	-48	-73	0	-121		
0	0	0	0	4,792	4,792		
0	0	0	0	0	0		
-10,222	663	69	-433	36,752	64,241		
0	0	0	0	0	0		
0	0	0	0	0	0		
0	0	0	0	0	0		
0	0	0	0	0	0		
0	0	27	0	5,892	5,919		
0	0	0	0	0	0		
-10,222	663	96	-433	42,644	70,160		

KPS AG Group Interim Financial Statements in accordance with IFRS

SEGMENT REPORTING FOR THE FIRST HALF-YEAR 2019/2020

Presentation by business areas in KEuros	Management consulting/ Transformation consulting		System Integration		Products/ Licenses		Other		Total	
	31.03.2020	Previous Year	31.03.2020	Previous Year	31.03.2020	Previous Year	31.03.2020	Previous Year	31.03.2020	Previous Year
Earnings position										
Sales	84,952	85,077	717	662	8,549	5,547	0	0	94,218	91,286
Production costs	-59,161	-58,681	-429	-473	-6,011	-4,078	0	0	-65,601	-63,233
Business development	-2,361	-2,221	0	-55	-47	-60	0	0	-2,408	-2,336
Operating costs	-9,103	-5,390	-28	-97	-167	-181	-3,858	-6,818	-13,156	-12,486
EBITDA	14,327	18,785	260	37	2,324	1,228	-3,858	-6,818	13,053	13,231
Depreciation and amortization	-1,297	-1,638	-1	0	0	0	-2,563	-100	-3,861	-1,738
EBIT	13,030	17,146	259	37	2,324	1,228	-6,421	-6,918	9,192	11,493
Interest	0	30	0	0	0	0	-854	-187	-854	-157
Income tax	-3,469	-5,872	-69	-13	-619	-420	1,709	2,369	-2,448	-3,936

Decision-making criteria for Group management are sales and EBITDA. Other fundamentals are not relevant.



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KPS GROUP
SELECTED EXPLANATORY NOTES

1 INFORMATION ON THE COMPANY AND THE GROUP

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

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

2 PRINCIPLES AND METHODS FOR DRAWING UP THE FINANCIAL STATEMENTS

The consolidated interim financial statements drawn up by KPS AG for the period from 1 October 2019 to 31 March 2020 were prepared in accordance with IAS 34 „Interim Financial Reporting“. The consolidated interim financial statements should be read in conjunction with the consolidated financial statements drawn up as at 30 September 2019.

3 AMENDMENT TO IMPORTANT ACCOUNTING METHODS

3.1 Leases

IFRS 16 was applied for the first time as of 1 October 2019 and the retrospective method was selected.

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

3.1.1 Definition of lease

Up to now, a determination was carried out at the beginning of a contract to establish whether an agreement included a lease in accordance with IFRIC 4 (Determining Whether an Arrangement Contains a Lease). The determination is now based on the definition of a leasing relationship as explained in Note 5, as to whether a contract is or includes a lease.

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

3.1.2 Leases classified as operating leases in accordance with IAS 17

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

On the delivery date or on the date of an amendment to an agreement which includes a leasing component, the contractually agreed payment is allocated on the basis of the relative individual sales prices.

However, in the case of vehicles and office equipment a decision was taken to refrain from a separation of non-leasing components and instead to report leasing and hence associated non-leasing components as a single leasing component.

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

KPS reviewed its rights of use for impairment on the date of the transfer and came to the conclusion that there are no grounds for an impairment of the rights of use. Use was made of a series of simplification rules for application of IFRS 16 to leases, which were classified in accordance with IAS 17 as operating leases. The individual simplification rules were as follows:

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

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

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

in KEuro	01.10.2019
Property, plant and equipment (rights of use)	24.028
- Buildings	20.058
- Office equipment	2.148
- Vehicles	1.822
Leasing liabilities Retained earnings	24.028

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

in KEuro	01.10.2019
Operating leases in accordance with IAS 17 as at 30.09.2019	30,197
Discounted with the weighted incremental borrowing rate	29,158
Exercise of extension options	23
Practical remedy for leases of low-value assets	0
Practical remedy for short-term leases	-250
Separation of non-leasing components	-4,903
Leasing liabilities as at 01.10.2019	24,028

4 NON-FINANCIAL ASSETS AND LIABILITIES

4.1 Leases

Information is provided in this note about leases in which KPS is the lessee.

4.1.1 Amounts recorded in the balance sheet

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

Right of use

in KEuro	31.03.2020	01.10.2019
Buildings	20,284	20,058
Vehicles	1,627	1,822
Business and office equipment	4,977	2,148
Total	26,888	24,028

Additions to rights of use

in KEuro	31.03.2020	01.10.2019
Additions	4,002	
Total	4,002	0

Leases

in KEuro	31.03.2020	01.10.2019
Short-term	4,218	
Long-term	22,502	
Total	26,720	24,028

4.1.2 Amounts recognized in the income statement

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

Depreciation and amortization of the right

in KEuro	31.03.2020
Buildings	973
Vehicles	628
Business and office equipment	672
Total	2,273

Interest expense

in KEuro	31.03.2020
Interest expenses for leasing liabilities	74
Total	74

Practical remedies

in KEuro	31.03.2020
Expense for short-term leases	510
Expense for leases related to an asset value of low-value assets	4
Total	514

Total cash outflows for leases shown in the cash flow statement amount to 2,457 KEuros in the reporting period.

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

KPS leases various office buildings, items of business equipment and vehicles. Lease agreements are generally concluded for fixed periods of up to 13 years, but they may have extension options, as described under section 2.1.4 below.

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

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

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

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

KPS uses the conditions of finance borrowed from third parties in order to determine the incremental borrowing rate.

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

Rights of use are valued at acquisition cost and they are comprised as follows:

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

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

4.1.4 Extension and termination options

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

Critical judgements in determining the term of the leases

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

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

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

As at 31 March 2020, potential future cash inflows in the amount of 8,262 KEuros (undiscounted) were not included in the leasing liability because it was not sufficiently certain that the lease agreements are being extended (or not terminated). The assessment is checked if an extension option is actually exercised (or not exercised), or KPS has an obligation to do this. A reassessment of the assessment originally made is carried out if a material event or a material change occurs in the circumstances which can influence the previous judgement – if this is under the control of the lessee. In the current reporting period, there were no amendments to the terms of the agreement relating to this issue.

5 SUMMARY OF SIGNIFICANT ACCOUNTING METHODS

5.1 Leases

IFRS 16 Leases has been applied for business years commencing after 1 October 2019.

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

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

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

On the delivery date defined in the lease, a right of use and a leasing liability are recorded. The right of use is initially assessed on the basis of acquisition costs. These result from the initial amount of the leasing liability, adjusted by any lease

payments before or on the delivery date defined in the lease, plus any direct costs incurred initially and an assessment of the costs for dismantling, removal, or reinstatement of the underlying asset or the location in which the asset is located, and less any leasing incentives included.

The depreciation of the right of use is carried out straight line from the date of delivery either until the end of its duration of use – or, if this falls earlier – until the end of the term of the lease. The estimated durations of use for assets with a right of use are determined on the same basis as rights of use for property, plant and equipment. Furthermore, the right of use is regularly reduced by any impairments and is appropriately adjusted in the case of any revaluations of the leasing liability. On the delivery date, the leasing liability is valued at the cash value of the lease payments not yet made on this date, discounted with the underlying interest rate defined in the lease of, if this rate cannot be easily determined, with the incremental borrowing rate of the Group. Generally, the incremental borrowing rate is applied as the discount rate.

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

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

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

Rights of use are recognized in the balance sheet as property, plant and equipment, and leasing liabilities are recognized as financial liabilities.

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

	Years
Buildings	4 – 13
Vehicles	2 – 4
Office and business equipment	2 – 6

6 ACCOUNTING AND VALUATION PRINCIPLES AND METHODS FOR DRAWING UP FINANCIAL STATEMENTS

The interim financial report is prepared on the basis of the half-year financial statements drawn up for the companies in accordance with the uniform accounting and valuation rules for the Group as at 31 March 2020. The same accounting and valuation principles are used for the consolidated interim financial statements, with the exception of the amended accounting methods described for leases in accordance with IFRS 16, as for the consolidated financial statements drawn up as at 30 September 2019. The values included in this interim financial report were calculated using the International Financial Reporting Standards (IFRS). The interim income tax expense during the year was calculated on the basis of the estimated effective income tax rate for the entire year. The interim report was not audited by the auditor and was not subject to an audit review.

7 GROUP OF CONSOLIDATED COMPANIES AND AFFILIATES

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	Voting share	
		31.03.2020 in %	30.09.2019 in %
KPS Business Transformation GmbH	Unterföhring	100	100
KPS Services GmbH	Unterföhring	100	100
KPS Consulting Verwaltungs GmbH	Unterföhring	100	100
KPS Consulting GmbH & Co. KG	Unterföhring	100	100
KPS Consulting AG	Zürich/Switzerland	100	100
KPS Solutions GmbH	Unterföhring	100	100
KPS digital GmbH	Dortmund	100	100
KPS Consulting A/S	Virum/Denmark	100	100
KPS B.V.	Amsterdam/Netherlands	100	100
KPS Consulting Inc.	Wilmington/USA	100	100
KPS Strategie-, Prozess- und IT-Consulting GmbH	Vienna/Austria	100	100
ICE Consultants Europe S.L.	Barcelona/Spain	100	100
Infront Consulting & Management GmbH	Hamburg	100	100
KPS Digital Ltd.	London/England	100	100
KPS Consulting AS	Lysaker/Norway	100	100
KPS Sweden AB (1)	Stockholm/Sweden	100	–

(1) KPS Sweden AB, Stockholm, was established with entry in the Company Register on 30 January 2020. The shareholders' equity amounts to SEK 500 and was completely paid up on 19 December 2019.

8 DISCLOSURES ON RELATED PARTIES

We refer to the consolidated financial statements dated 30 September 2019 for information about related companies and persons (related parties). As at 31 March 2020, no significant changes have taken place.

9 CORPORATE GOVERNANCE

The Declaration of Compliance on the German Corporate Governance Code required pursuant to Article 161 of the Stock Corporation Law (AktG) was submitted for the business year 2019/2020 and is permanently available on the company's website <https://www.kps.com/de/investor-relations.html>.

10 EVENTS AFTER THE BALANCE SHEET DATE

No events occurred after the balance sheet date that will exert a significant impact on the business performance of the KPS Group.

Unterföhring, May 2020

KPS AG
The Executive Board

KPS AG Group Interim Financial Statements in accordance with IFRS

DEVELOPMENT OF THE FIXED ASSETS (GROSS PRESENTATION)

POSITION	ACQUISITION OR PRODUCTION COSTS				31.03.2020
	01.10.2019	Additions	Disposals	Transfers	
in KEuro					
I.) INTANGIBLE ASSETS					
1. Concessions, industrial property rights and similar rights and assets, and licenses in such rights and assets					
a.) if acquired	13,825	68	159	0	14,051
b.) if internally generated	13,081	945	0	0	11,845
2. Goodwill	77,561	0	0	0	77,561
Intangible assets	104,467	1,013	159	0	103,457
II.) PROPERTY, PLANT AND EQUIPMENT					
1. Business and office equipment	3,605	851	1,971	830	3,433
2. Low-value assets	60	124	25	0	55
3. Advance payments received	830	0	0	-830	0
Property, plant and equipment	4,495	975	1,996	0	3,488
Total fixed assets	108,962	1,988	2,155	0	108,795

	ACCUMULATED DEPRECIATION				31.03.2020	BOOK VALUE	
	01.10.2019	Additions	Disposals	Transfers		31.03.2020	30.09.2019
	9,201	771	162	0	9,810	3,924	4,624
	2,026	640	0	0	2,666	11,360	11,055
	15,016	0	0	0	15,016	62,545	62,545
	26,243	1,411	162	0	27,492	77,829	78,224
	2,820	180	1,922	0	1,078	2,237	785
	22	0	2	0	20	139	38
	0	0	0	0	0	0	830
	2,820	180	1,924	0	1,098	2,376	1,653
	29,085	1,591	2,086	0	28,590	80,205	79,877

DECLARATION BY THE LEGAL REPRESENTATIVES

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

Unterföhring, May 2020

KPS AG
The Executive Board



IMPRINT

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ADDITIONAL INFORMATION

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