

GROUP
HALF-YEAR REPORT

KPS

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2018 19

KPS GROUP
TO THE SHAREHOLDERS

KPS IN THE CAPITAL MARKET 2018/2019

Price performance of the KPS share

From the perspective of the stock market, the year 2018 was a poor year. The DAX blue-chip stock market index closed the year with losses for the first time since 2011. The last time it fell even further over the course of one year was in the crisis year 2008.¹ A closing price of 10,559 points on 28 December 2018 brought the DAX a loss of 18 % over the course of 2018. The Dow Jones was also not able to buck the general trend and closed the year with a loss of 6.0 %. Driven by extended phases of political uncertainty in many different investment classes and markets, this downward trend was also highlighted by the fact that a year-end rally frequently observed in the direction of higher share prices failed to materialize in November and December.² Consequently, the MSCI All Countries World Index also lost 11.2 % during the year.³ At the beginning of the year, a modest recovery finally came to fruition and the DAX closed at 11,526 points at the end of the reporting half-year on 31 March 2019. The Dow also posted a similar positive development.⁴

During the reporting year 2018/2019, the share of KPS AG developed overall rather better than the DAX stock-market index. The price performance in the final quarter of 2018 was influenced by the volatile equity markets. On 1 October 2018, the share started trading at a price of 7.61 euros and on 17 December 2018 reached a low in the reporting period at 5.11 euros in the context of generally difficult markets. An upward trend commenced on this date which lasted until 15 March and took the share to a high of 8.49 euros for the reporting period. The share tracked a general market trend at the beginning of 2019 and developed rather better than in the DAX comparative index. The KPS share concluded the reporting period at a price level of 8.26 euros on 31 March 2019.

The average daily trading volume of the KPS share on all German stock exchanges amounted to 14,541 no-par shares (previous year: 40,673 shares). The market capitalization of KPS AG was 309.0 (previous year: 332.6) million euros on 31 March 2019 following an upswing in the price at the beginning of 2019 based on 37,412,100 shares (all information based on Xetra prices).



KPS
Prime
Standard

2018/2019

¹ <https://www.faz.net/aktuell/finanzen/finanzmarkt/kommentar-zum-boersenjahr-die-boerse-be-lohnt-2019-die-mutigen-15964718.html>

² <https://www.faz.net/aktuell/finanzen/finanzmarkt/kommentar-zum-boersenjahr-die-boerse-be-lohnt-2019-die-mutigen-15964718.html>

³ Thomson Reuters Eikon

⁴ Thomson Reuters Eikon

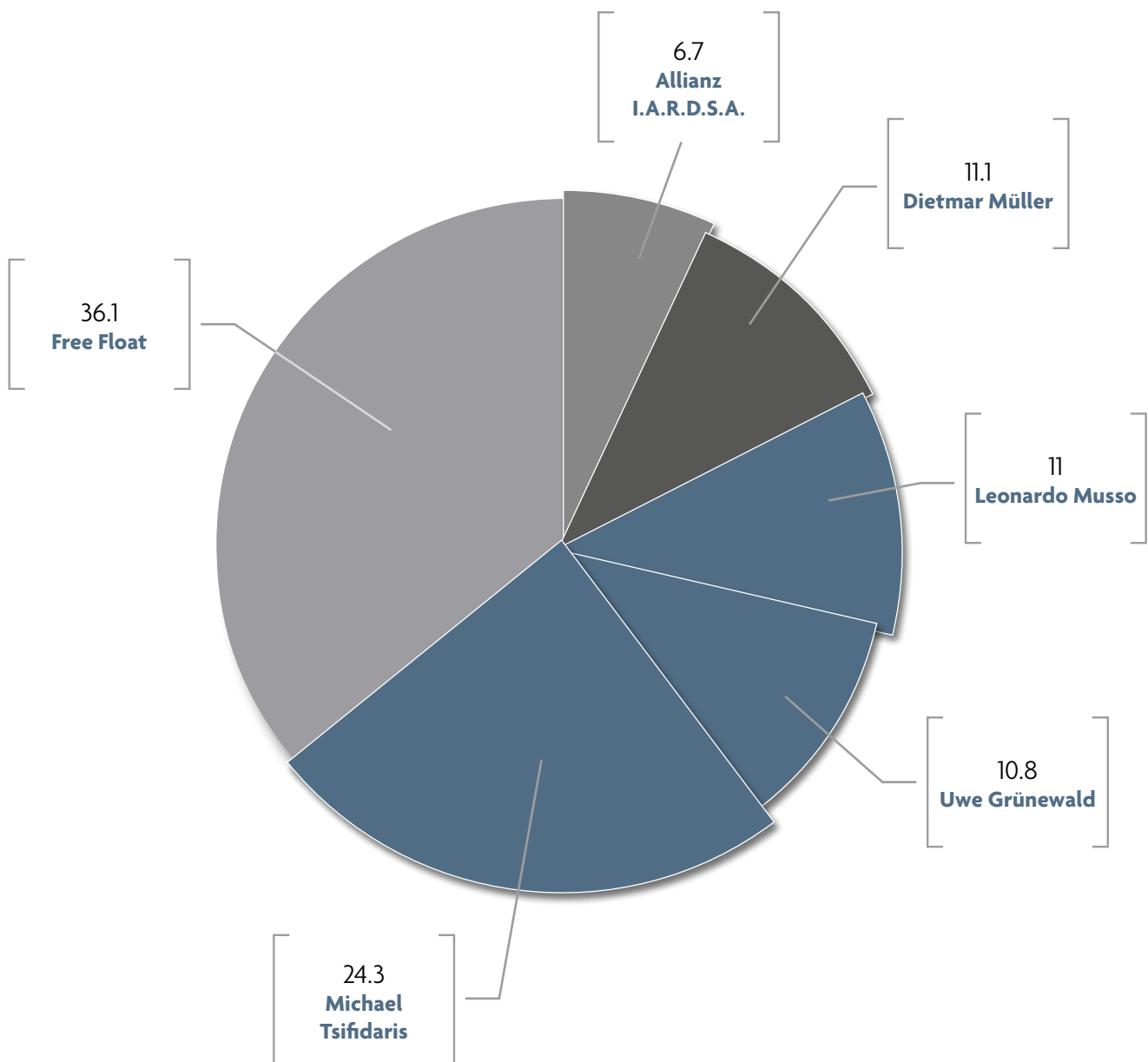
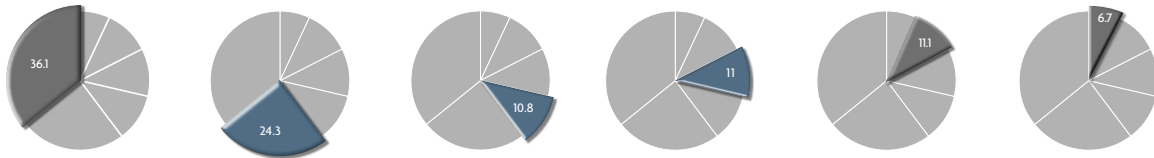


Shareholder structure

On 31 March 2019, the shareholder structure of KPS AG is as follows:

The Chairman of the Supervisory Board, Michael Tsifdaris, 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, holds 11 % of the shares in the company. This means that 46.1 % of the voting shares are held by the current management of KPS AG. Other significant shareholdings are held by Dietmar Müller, former Board Member of KPS AG, in the amount of 11.1 % and Allianz I.A.R.D.S.A. with a shareholding of 6.7 %. The remaining 36.1 % of the capital stock is in free float. KPS AG is always in close contact with existing and potential investors and is committed to strategically expanding its circle of shareholders.

Voting rights in %



This information is based on the voting right notifications in accordance with the Securities Trading Law, WpHG (status: 31 March 2018) and company information; free float in accordance with the definition of the German Stock Exchange (Deutsche Börse) with shareholdings in the capital stock of less than 5 %.

Investor relations

In the first half of the business year 2018/2019, 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.

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 period under review. 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.

This involved the Executive Board of KPS AG presenting the development of the company and corporate strategy at roadshows in European financial centers as well as participating in a number of capital market conferences in Frankfurt am Main and Munich. Furthermore, during the first half year KPS AG made use of teleconferences with associated webcasts to communicate the business figures for the year 2017/2018 and the figures for the first quarter of 2018/2019 to players in the capital 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://kps.com/de/investor-relations.html>.

Financial calendar

29 July 2019	Publication of the figures for the 3rd quarter of 2018/2019
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Analysts research

The performance of the KPS share is continuously analyzed and evaluated by the investment company GBC Research and the leading banks Landesbank Baden-Württemberg (LBBW), Oddo BHF AG and Warburg. The analysts unanimously emphasized their recommendations to buy the KPS share in their latest studies on business performance and the perspectives of the company. Henning Steinbrink, analyst at Oddo BHF, quoted a target price of 12.60 euros in his report dated 20 February 2019 and sees in particular the improvement in profitability following acquisitions in the previous business year and ongoing centralization as a result of the new process factory in Dortmund as very positive messages. In view of the dynamic sales and corresponding expectations for income, LBBW analyst Mirko Maier maintained his target price of 8.75 euros in his report dated 27 February 2019. Matthias Greiffenberger from GBC continues to perceive KPS as the European market leader for digital transformation in the area of retail and logistics and to be well positioned in order to benefit from the lively demand in this sector. In conjunction with the industrialization of the consultation approach, Greiffenberger sets the target price at 13.20 euros in his report on the first quarter of 2018/2019 dated 5 March 2019 on the basis of the figures for the first quarter of 2018/2019. Andreas Wolf from Warburg also perceives KPS as a buy recommendation with a target price of 10.50 euros on 15 February 2019 on the basis of improved margins in the first quarter of 2018/2019 and the unique positioning of KPS as market leader in digital transformation consulting.



Half-year
Report

2018/2019

Share information

Sector	Software (IT service provider)
ISIN	DE000A1A6V48
WKN	A1A6V4
Ticker symbol	KCS
First listing	14 July 1999
Number and type of shares	37,412,100.00 registered no-par value ordinary shares (no-par shares)
Capital stock	37,412,100 euros
Stock exchange	Frankfurt, Stuttgart, Hamburg, Berlin-Bremen, Düsseldorf and Munich, and XETRA
Market segment	Regulated market
Transparency level	Prime Standard
Designated sponsor	Oddo Seydler Bank AG
High / Low	8.49 / 5.11 euros
Opening price	7.61 euros
Closing price	8.26 euros
Market capitalization	309.0 million euros

(Status: 31 March 2019)



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KPS GROUP
INTERIM MANAGEMENT REPORT

1 ECONOMIC REPORT

1.1 Macroeconomic development

Development of the global economy

According to the International Monetary Fund (IMF), the global economy was significantly less dynamic in the second half of 2018 after an extended strong growth phase during 2017 and the first half of 2018. This is based on interaction between a number of different factors in the key economies. Growth in the People's Republic of China put a brake on the burgeoning tensions in trade relations with the USA and tougher regulation in the banking sector. The economy in the eurozone lost momentum after new emissions standards in the automobile sector, rising interest rates on Italian sovereign debt and lower demand for exports in Asia exerted a negative impact.

According to the diagnosis by the IMF, specific tensions in global trade continue to depress sentiment overall and were also impacting on financial markets. The more restrictive conditions that had already become evident in the emerging economies during the first half of 2018 were also tangible in the developed economies at the close of the year. Even though the more expansive US monetary policy and hopes of a Sino-American trade agreement were ultimately grounds for optimism, financing conditions continued to be more difficult than in the fall.

The economists of the IMF reduced their outlook for 2019 compared with the forecast issued in October 2018. Over the course of 2018, they anticipated growth of 3.6 % and this is therefore 0.1 % below the original forecast. For 2019, they reduced their forecast by 0.4 percentage points to 3.3 % and by 0.1 percentage points for 2020 to 3.6 % growth. The economic experts expect the global economic curve to flatline in the first half of 2019, but anticipate more robust growth in the second half of the year and during 2020. The report by the IMF points out that this forecast is based on the assumption that many of the factors currently putting a brake on growth are slowly being dissipated. Nevertheless, the growth forecasts remained positive for virtually all the countries and regions.

While the anticipated growth rates for emerging economies and developing countries continued to be positioned at just shy of 5 %, the developed industrial countries were only projected to grow at 1.8 % and 1.7 % in 2019 and 2020 respectively. The experts are correspondingly expecting an easing of the cyclical growth momentum and a return to more moderate growth potential for the period. Ultimately, these economies were at or even above their output potential.⁵

Development in the eurozone

According to a statement by the Joint Economic Forecast Project Group, the economy of the eurozone continued to cool down in the second half of 2018 owing to increased global tensions in trade policy, weaker global demand and temporary problems in the automobile sector. Expectations of growth at 1.2 % for 2019 and 1.5 % for 2020 continue to be slightly below the value for 2018. Recently, production only expanded by 0.1 % and 0.2 % respectively in the third and fourth quarters of last year. While economic output in Germany even declined as a result of one-off effects in the third quarter, the Italian economy shrank during these two quarters primarily on account of weaker economic activity in the domestic sector. The ECB recently provided support with slightly expansive stimuli and signaled stable base rates at least up until the end of the year. Furthermore, the economic experts are expecting a slightly expansive financial policy for 2019.⁶

⁵ <https://www.imf.org/-/media/Files/Publications/WEO/2019/April/English/text.ashx?la=en>

⁶ http://gemeinschaftsdiagnose.de/wp-content/uploads/2019/04/GDI_2019_final_20190408.pdf

The political uncertainty about future relations between the EU and the United Kingdom, and the enduring trade conflict with the USA are acting as a burden on the joint forecast and are consequently depressing the willingness of companies to invest. At the same time, the situation in the employment markets continues unchanged at a buoyant level and this will undoubtedly continue to support private consumption and domestic demand in 2019. In view of the unemployment rates, which are already below the structural level in many places, shortages in the labor market are increasingly exerting a positive effect on nominal wages. Inflation on the moderate side (1.4 % in 2019, 1.6 % in 2020) is likely to cause an ongoing rise in disposable income. The unemployment rate in the eurozone will probably only experience a moderate fall to 7.7 % in 2019 and 7.4 % in 2020.⁷

Development in Germany

In the opinion of the leading German economic research institutes, the longstanding boom in the German economy over many years looks as though it has come to an end for the time being. A weakening in dynamic economic growth in 2018 and 2019 was already forecast in the previous year, however, economists underestimated the extent of domestic restrictions on production and the weakening of the global economy. Apart from lower export demand, difficulties in automobile production and the low water level in the Rhine were the primary factors depressing growth and resulted in growth of 1.4 % for 2018 (forecast in the fall 2018: 1.7 %). In 2019, German economic growth will be primarily supported by consumer-related services, while industrial production is only projected to start making significant contributions to growth again over the course of the year and capacity bottlenecks in the construction industry continue to place a brake on growth. Experts are expecting growth in Germany of 0.8 % in 2019, and then 1.8 % in 2020. The economic institutes regard the risk of a marked recession as low.⁸

1.2 Sector-related framework conditions

According to the Federal Association of German Management Consultants (BDU), positive development of the consulting sector in Germany continued in 2018. Total sales in the sector in Germany rose by 7.3 % to 33.8 billion euros in 2018 compared with 2017. The federal association also forecast strong sector growth of 7.1 % for 2018. Accordingly, the majority of management consultants are also planning to create more jobs for junior and senior consultants. The driving force in the market continues to be advancing digitalization in 2019. During 2018, topics related to IT security and data protection remained a focus of attention. However, sector-specific solutions to problems are also in demand. The consumer goods industry is notable in this regard as a result of its pioneering role in the development of technology-based and fully integrated business models. For the business year 2019, 65 (previous year: 78) % of the market players posted a positive growth forecast and thereby confirm the upside sector prospects.⁹

In line with the overall reserved macroeconomic growth prospects, the sentiment indicator defined in the Information Industry sector report produced by the Center for European Economic Research (ZEW) was below the very good values recently reported in spite of the positive sector development. However, at 66.4 points it remained significantly above the critical 50-point mark.¹⁰

7 http://gemeinschaftsdiagnose.de/wp-content/uploads/2019/04/GDI_2019_final_20190408.pdf

8 http://gemeinschaftsdiagnose.de/wp-content/uploads/2019/04/GDI_2019_final_20190408.pdf

9 <https://www.bdu.de/media/353287/branchenstudie-unternehmensberatung-2019.pdf>

10 <http://ftp.zew.de/pub/zew-docs/brepikt/201804BrepIKT.pdf>

1.3 Business performance

In the first half-year of 2018/2019, KPS posted sales of 91.3 million euros and thereby an increase of 3.3 % compared with the year-earlier period (88.4 million euros). This development was essentially driven by the company purchases carried out during the previous year and the acquisition of transformation projects.

Integration of the companies Envoy Digital Limited and Infront Consulting & Management GmbH purchased during the past business year 2017/2018 has essentially been completed so that the extended geographical focus, the new strategic consulting offering and the synergy effects within the scope of group-wide transformation projects is already exerting a positive impact on the business of KPS. The operating excellence and the success of Envoy is reflected in the award as “UK eCommerce Agency of the Year 2019” conferred in the first half-year of 2018/2019. New projects were generated in the first half-year of 2018/2019 and from established business relationships with portfolio customers and by acquisitions of new customers. The Scandinavian market made a particularly robust contribution to sales development: KPS supported among others one of the biggest SAP transformation programs of a Scandinavian food retail chain by establishing a completely new retail platform, which radically modernized the business processes and IT systems. KPS has been implementing digitalization and automation of all marketing processes for a further leading food retailer and a new B2B platform for the leading electronics retailer in the Nordic Region.

At the same time, KPS expanded the comprehensive transformation offering with new solutions in the first half of the year. Innovative Cloud applications from Digital Asset Management specialists CELUM, Austria, enable KPS to provide its customers with comprehensive management of their media assets and direct access from SAP. A partnership with the international experience management company Qualtrics empowers an even better understanding of the customer journey as a result of professional customer and employee surveys and opens up additional potential for optimization which can also be directly integrated in SAP solutions.

In line with the positive business development and successful integration, the operating result before depreciation and amortization (EBITDA) improved by 41.3 % to 13.2 (previous year: 9.4) million euros by comparison with the year-earlier period.

1.4 Financial position, asset situation, and results of operations

The KPS Group did not reach the corporate targets in all areas defined by the Supervisory Board and the Executive Board for the first half of the business year 2018/2019.

Sales were slightly above the level of the previous year and they also exceeded expectations at the beginning of the business year 2018/2019.

Operating result before depreciation and amortization was substantially above the level of the previous year, although the earnings planned at the beginning of the business year 2018/2019 were not achieved in full.

1.4.1 Results of operations for the KPS Group

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

in KEuros	2018/2019	2017/2018
Revenues	91,286	88,367
Own work capitalized	1,302	1,518
Other operating income	246	704
Cost of materials	-32,240	-37,995
Personnel expenses	-33,757	-30,845
Other operating expenses	-13,606	-12,384
Operating result before depreciation and amortization (EBITDA)	13,231	9,365
Depreciation and amortization (M&A adjusted)	-563	-402
Operating result (EBIT) adjusted	12,668	8,963
Amortization and depreciation (M&A related)	-1,175	-1,451
Operating result (EBIT)	11,493	7,512
Financial result	-157	-29
Earnings before income taxes*	11,336	7,483
Income tax	-3,936	-2,008
Earnings after income taxes	7,400	5,475

*corresponds to the result from ordinary activities

Restricted comparability with the previous year

Infront Consulting & Management GmbH and Envoy Digital Limited, England, are fully integrated in the result for the business year 2018/2019. The business figures can therefore only be compared with those of the previous year to a certain extent because these two companies were acquired during the first half of the business year 2017/2018.

Revenues

In the first half-year of the business year 2018/2019, revenues rose by 3.3 % to 91.3 (previous year: 88.4) million euros by comparison with the previous year. The result enabled the company to exceed the original expectations. This outcome is primarily due to acquiring transformation projects with prestigious customers from retail and the consumer goods industry. Furthermore, the companies purchased in the course of the previous year contributed to sales throughout the entire year under review for the first time.

Own work capitalized

Own work capitalized amounted to 1.3 (previous year: 1.5) million euros over the business half-year under review. This relates to the intangible assets developed in-house (development costs).

Other operating income

As was 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 by 65.1 % from 0.7 million euros to 0.2 million euros.

Cost of materials

During the period under review, the cost of materials developed contrary to the increase in sales. The project-related cost of materials, which primarily includes the costs for subcontracted services, fell by 0.2 million euros from 31.2 million euros to 31.0 million euros. One reason for this development is the use of in-house employees for project-related customer business and this led to a cost reduction in the case of subcontracted services. The expenses for purchased software came down by 5.6 million euros from 6.8 million euros to 1.2 million euros compared with the reporting period 2017/2018. The reason for this fall is bigger software procurement for a customer project compared with the year-earlier reporting period.

Personnel expenses

Personnel expenses amounted to 33.8 (previous year: 30.8) million euros and the increase in these expenses of 3.0 million euros or 9.4 % was therefore higher compared with the equivalent year-earlier period. In particular, this increase is due to the rise in sales and the associated increase in the number of new consultants appointed during the expansion of the workforce, particularly in the foreign KPS units. Furthermore, the figures are only comparable with the year-earlier values to a certain extent because the personnel costs for the purchased companies are not included in the figures for the entire previous year. At 31 March 2019, 605 (on the equivalent statement date in the previous year: 614) employees were working in the KPS Group. In the first half-year of 2018/2019, the number of employees increased by 14 compared with 591 employees at the end of the business year 2017/2018. The increase in the number of employees results almost exclusively from the increase in the number of employees in the foreign KPS units.

Other operating expenses

Other operating expenses increased by 9.9 % to 13.6 (previous year: 12.4) 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 premises and operating costs.

Depreciation and amortization

Depreciation and amortization at 1.7 million euros fell by 0.2 million euros compared with 1.9 million euros in the first half-year 2017/2018. The proportion of M&A-related amortization amounts to 1.2 (previous year: 1.5) million euros.

Financial result

In the first half-year 2018/2019, the financial result of the Group was 0.2 million euros and it therefore increased by 0.2 million euros compared with the year-earlier value (0.0 million euros). The reason for this increase is the interest payments for the floating of a long-term loan in order to finance the company acquisitions carried out in the previous business year.

Income taxes

The total amount of taxes on income and earnings amounted to 3.9 (previous year: 2.0) million euros and includes current expenses for corporate income tax,

solidarity surcharge, and trade tax amounting to 3.3 million euros and deferred taxes in the amount of 0.6 million euros.

Earnings after income taxes

The consolidated income for the period under review went up by 35.2 % from 5.5 million euros to 7.4 million euros.

Calculation of EBITDA

EBITDA rose by 3.8 million euros from 9.4 million euros in the previous year to 13.2 million euros in the reporting period. The EBITDA margin amounted to 14.5 % in the first half-year and was therefore significantly above the year-earlier value of 10.6 %.

Calculation of EBIT

EBIT increased by 4.0 million euros from 7.5 million euros in the previous year to 11.5 million euros in the first half of the business year 2018/2019. This corresponds to a rise of 52.9 %. Based on sales of 91.3 (previous year: 88.4) million euros, the EBIT margin increased by 4.1 percentage points compared with the year-earlier value of 8.5 % to 12.6 %.

The consolidated income for the period increased by 1.9 million euros from 5.5 million euros in the previous year to 7.4 million euros. This corresponds to a rise of 35.2 % compared with the first half-year of 2017/2018.

Adjusted earnings per share

The diluted and basic earnings per share amounted to 0.20 euros in the first half of the business year 2018/2019 compared with 0.15 euros in the previous year. The average number of shares increased from 37,335,891 no-par shares to the current level of 37,412,100 on the balance sheet date. The reason for this was the use of the total portfolio of treasury shares as payment for part of the purchase price in the course of purchasing Infront Consulting & Management GmbH, Hamburg.

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

in KEuros	2018/2019	2017/2018
Non-current assets	84,390	85,247
Current assets	55,582	54,620
Total assets	139,972	139,867
Shareholders' equity	72,664	65,080
Non-current liabilities	28,529	27,960
Current liabilities	38,779	46,827
Total liabilities	67,308	74,787
Total shareholders' equity and liabilities	139,972	139,867

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 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. The funding of additional growth at KPS, in particular the company acquisitions actioned in the previous year, was financed through borrowings.

On 31 March 2019, the KPS Group had cash amounting to 10.0 (previous year: 9.1) million euros. There were bank liabilities amounting to 17.2 (previous year: 21.2) million euros, of which 1.0 (previous year: 5.0) million euros had a term of less than three months. Net liquidity amounted to 9.0 (previous year: -25.3) million euros on the reporting date.

Cash flow from current activities amounted to 9.4 million euros in the first half of the business year 2018/2019 compared with 0.8 million euros in the previous year. Cash flow from investment activities amounted to -4.3 (previous year: -21.6) million euros. The reduction in cash outflow results primarily from the significantly higher purchase price payments in conjunction with the acquisitions of ICE Consultants Europe, S.L., Spain, Infront Consulting & Management GmbH, Hamburg and Envoy Digital Limited, United Kingdom, in the previous business year. In the first half-year, cash flow from financial activities amounted to -0.2 (previous year: -13.1) million euros. The reduction essentially results from the dividend payment for the business year 2016/2017 which was made in the first half of the business year 2017/2018. The payment of the dividend for the business year 2017/2018 was made in the second half-year 2018/2019.

Asset situation

The KPS Group has a term-congruent balance sheet structure. The increased business scope is reflected in the balance sheet total. On 31 March 2019, this amounted to 140.0 (previous year: 139.9) million euros and therefore increased by 0.1 million euros.

Development of assets

On 31 March 2019, the assets tied up in medium to long-term assets amount to 84.4 (previous year: 85.2) million euros. These primarily relate to the goodwill from company acquisitions of KPS AG amounting to 62.5 (previous year: 62.5) million euros, other intangible assets amounting to 16.3 (previous year: 16.2) million euros, property, plant and equipment amounting to 1.0 (previous year: 1.0) million euros, and capitalized deferred taxes amounting to 4.6 (previous year: 5.5) million euros.

Receivables from future production orders, trade receivables, and other assets recognized under current assets amounting to a total of 45.4 million euros increased by 0.1 million euros compared with the year-earlier value of 45.3 million euros.

Development of equity

The share in equity attributable to shareholders of KPS AG increased by 7.6 million euros compared with the previous year and amounted to 72.7 (previous year: 65.1) million euros on 31 March 2019. The equity ratio increased from 46.5 % to 51.9 % during the period under review. A detailed explanation is provided in the statement of changes in shareholders' equity.

Development of liabilities

Apart from a long-term loan floated to finance company acquisitions, non-current liabilities in the amount of 28.5 (previous year: 28.0) million euros primarily relate to deferred tax liabilities, personnel and pension obligations, and liabilities for earn-out payments that are likely to be expected.

Current liabilities decreased by 8.0 million euros compared with the year-earlier reporting date and amount to 38.8 (previous year: 46.8) million euros.

Liabilities to banks amounted to 17.2 (previous year: 21.2) million euros on the reporting date 31 March 2019.

Trade liabilities decreased by 0.5 million euros to 10.4 (previous year: 10.9) 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. This is 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 2019, the KPS Group employed a total of 605 (year-earlier reporting date: 614) employees. In the first half-year of 2018/2019, the number of employees increased by 14, compared with 591 employees at the end of the business year 2017/2018. The increase in the number of employees results almost exclusively from the increase in the workforce employed in foreign KPS units.

In Germany, we employed a workforce of 449 employees (previous year: 484), which is equivalent to a share of 67.6 % (previous year: 78.8 %) in the Group overall. The average number of consultants employed in the period under review amounted to 544 (previous year: 497). The rise by 47 employees or 10.9 % primarily resulted from the company acquisitions carried out.

Personnel expenses increased by 3.0 million euros or by 9.4 % to 33.8 (previous year: 30.8) million euros in the first business half-year 2018/2019.

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

	31.03.2019	30.09.2018	Change
Employees by region			
Germany	449	457	-8
Spain	81	65	16
England	42	35	7
Denmark	21	20	1
Switzerland	7	8	-1
Austria	4	5	-1
Netherlands	1	1	0
Total	605	591	14
Employees by function			
Executive Board	1	1	0
Managing Directors	14	14	0
Consultants	518	508	10
Administration	71	67	4
Apprentices	1	1	0
Total	605	591	14

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 fifteen companies). From 31 March 2019, 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.

Changes in asset situation, financial position and results of operations

Since 31 March 2019, no events of particular importance have occurred which we expect to exert a significant influence on the asset situation, financial position and results of operations of the KPS Group.

Assessment of current development by the Executive Board

The KPS Group did not succeed in attaining the corporate targets in all areas as defined by the Supervisory Board and the Executive Board for the first half of the business year 2018/2019.

Sales were slightly above the level for the previous year and also above the expectations at the beginning of the business year 2018/2019.

Earnings before interest and income tax were significantly up on the previous year, although at the beginning the business year 2018/2019 the planned earnings were not achieved in full.

KPS made a successful start to the business year 2018/2019. On the basis of current knowledge today, the Supervisory Board and the Executive Board expect sales in the current business year to develop in line with expectations. The previous planning for EBITDA of 22 – 27 million euros in the current business year continues to apply.

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 gain the necessary overview of the likely development of the economy in markets relevant to us.

On the basis of the order backlog currently in place and extending over an above-average period, we do not expect any negative impacts on the KPS Group 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.

We refer to the comprehensive report in the Annual Report 2017/2018 for a presentation and assessment of the individual risks. There have not been any significant changes since then.

3 OUTLOOK REPORT

Positive assessment of the situation for development at KPS AG

The Executive Board and the Supervisory Board at KPS AG have an overall positive assessment of the situation. They perceive the KPS Group to be in an excellent position to address the challenges of the future, particularly as a result of the ongoing internationalization of the group of companies. Another key factor is the further bolstered innovative power following on from the acquisitions made in the course of the previous business year 2017/2018. Also against this background, KPS has a robust financial structure and income position. Furthermore, KPS has committed and highly quality employees who will continue to make a major contribution to the success of the company in the future.

When making plans for the business year 2018/2019, the Executive Board is continuing to assume stable growth and confirms the forecast for the business year 2018/2019 issued in January 2019. The Board expects a slight increase in sales to between 170 million to 180 million euros and a significant increase in EBITDA to an amount within the corridor between 22 million and 27 million euros. The Supervisory Board and the Executive Board will be maintaining their approach and robustly driving forward their strategy of innovation, industrialization and internationalization.

This 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 nevertheless an underlying risk that the projected sales and earnings targets may not be achieved.

Unterföhring, May 2019
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 2018 to 31 March 2019

in KEuros		2018/2019	2017/2018
1	Revenues	91,286	88,367
2	Own work capitalized	1,302	1,518
3	Other operating income	246	704
4	Cost of materials	-32,240	-37,995
5	Personnel expenses	-33,757	-30,845
6	Other operating expenses	-13,606	-12,384
7	Operating result before depreciation and amortization (EBITDA)	13,231	9,365
8	Depreciation and amortization (M&A adjusted) *	-563	-402
9	Operating result (EBIT) adjusted *	12,668	8,963
10	Depreciation and amortization (M&A related) *	-1,175	-1,451
11	Operating result (EBIT)	11,493	7,512
12	Financial income	2	3
13	Financial expenses	-159	-32
14	Financial result	-157	-29
15	Earnings before income taxes**	11,336	7,483
16	Income tax	-3,936	-2,008
17	Earnings after income taxes	7,400	5,475
	Number of shares in thousands basic/diluted weighted average	37,412	37,336
in euros			
	Earnings per share		
	– basic	0.20	0.15
	– diluted	0.20	0.15

* 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 2018 to 31 March 2019

in KEuros	2018/2019	2017/2018
Earnings after income taxes	7,400	5,475
Actuarial gains and losses arising from defined benefit pension commitments and similar obligations	118	53
Foreign currency translation adjustment for foreign subsidiary companies	66	0
Comprehensive income	7,584	5,528

INDICATORS FOR THE INCOME STATEMENT

in million euros	2018/2019	2017/2018
Revenues	91.3	88.4
EBITDA	13.2	9.4
EBITDA margin	14.5 %	10.6 %
EBIT	11.5	7.5
EBIT margin	12.6 %	8.5 %

KPS AG Group Interim Financial Statements in accordance with IFRS

**GROUP BALANCE SHEET
as at 31 March 2019**

ASSETS

in KEuros	31.03.2019	30.09.2018
ASSETS		
A. NON-CURRENT ASSETS		
I. Property, plant and equipment	952	1,023
II. Goodwill	62,546	62,546
III. Other intangible assets	16,306	16,190
IV. Deferred tax assets	4,586	5,488
	84,390	85,247
B. CURRENT ASSETS		
I. Future receivables from production orders	0	2,282
II. Trade receivables	43,372	41,667
III. Other receivables and financial assets	1,991	1,342
IV. Entitlements to income tax rebates	231	245
V. Cash and cash equivalents	9,988	9,084
	55,582	54,620
Total assets	139,972	139,867

LIABILITIES AND SHAREHOLDERS' EQUITY

in KEuros	31.03.2019	30.09.2018
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	-243	-427
V. Net profit	45,054	37,654
Total equity	72,664	65,080
LIABILITIES		
B. NON-CURRENT LIABILITIES		
I. Non-current provisions	3,109	3,094
II. Other non-current liabilities	11,082	10,252
III. Non-current financial liabilities	12,400	12,400
IV. Deferred tax liabilities	1,938	2,214
	28,529	27,960
C. CURRENT LIABILITIES		
I. Trade liabilities	10,363	10,911
II. Financial liabilities	4,800	8,800
III. Advance payments received	462	2,081
IV. Tax provisions	3,329	2,364
V. Other provisions	10,303	9,694
VI. Other liabilities	8,978	12,534
VII. Income tax liabilities	544	443
	38,779	46,827
Total liabilities	67,308	74,787
Total shareholders' equity and liabilities	139,972	139,867
Equity ratio	51.9 %	46.5 %

KPS AG Group Interim Financial Statements in accordance with IFRS

CONSOLIDATED CASH FLOW STATEMENT
for the period from 1 October 2018 to 31 March 2019

in KEuros	2018/2019	2017/2018
A. Current business operations		
Earnings before interest and income tax (EBIT)	11,493	7,511
Depreciation of fixed assets	1,738	1,853
Change in current assets	-72	-7,296
Change in provisions	609	-1,320
Other non-cash expenses and income	1,004	-657
Change in other liabilities	-3,138	4,009
Losses from asset disposals	0	0
Taxes paid	-2,226	-3,282
Interest received	3	3
Cash inflow from current business operations	9,411	820
B. Investment activities		
Investments in property, plant and equipment	-112	-68
Investments in intangible assets	-1,684	-1,916
Investments in the acquisition of ICE	-1,984	-10,354
Investments in the acquisition of Infront	0	-4,285
Investments in the acquisition of Envoy	-563	-4,951
Cash receipts from the sale of assets	0	0
Cash outflow from investment activities	-4,343	-21,574
C. Financial activities		
Interest paid	-164	-28
Cash receipts from taking out loans	0	0
Payments for the settlement of loans	0	0
Dividend payouts	0	-13,094
Cash outflow from financial activities	-164	-13,122
D. Net change in cash funds	4,904	-33,876
E. Cash funds at the beginning of the period	4,084	6,665
F. Consolidation-related change in cash funds	0	1,895
G. Cash funds at the end of the period	8,988	-25,316

COMPOSITION OF CASH FUNDS

in KEuros	31.03.2019	31.03.2018
Cash in hand and bank balances	9,988	6,070
Bank liabilities with a term of up to three months	-1,000	-31,386
Cash funds	8,988	-25,316

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
30.09.2017	37,412	-121	37,291
Acquisition of treasury shares	0	0	0
Disposal of treasury shares	0	121	121
Equity transactions with shareholders			
Dividend payout	0	0	0
Other changes	0	0	0
Changes recognized without affecting income	0	0	0
Group earnings	0	0	0
Allocation to retained earnings	0	0	0
31.03.2018	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 recognized without affecting income	0	0	0
Group earnings	0	0	0
Allocation to retained earnings	0	0	0
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 recognized without affecting income	0	0	0
Group earnings	0	0	0
Allocation to retained earnings	0	0	0
31.03.2019	37,412	0	37,412

**ACCUMULATED OTHER COMPREHENSIVE
INCOME**

Capital reserve	Retained earnings OCI	Currency translation differences	Pension commitments	Net profit	Equity
-11,595	663	0	-647	40,476	66,188
0	0	0	0	0	0
1,814	0	0	0	0	1,935
0	0	0	0	-13,094	-13,094
0	0	0	0	0	0
0	0	0	53	0	53
0	0	0	0	5,474	5,474
0	0	0	0	0	0
-9,781	663	0	-594	32,856	60,556
0	0	0	0	0	0
-441	0	0	0	441	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	51	116	0	167
0	0	0	0	4,357	4,357
0	0	0	0	0	0
-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	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

KPS AG Group Interim Financial Statements in accordance with IFRS

SEGMENT REPORTING FOR THE FIRST HALF-YEAR 2018/2019

Presentation by business areas in KEuros	Management consulting/ Transformation consulting		System Integration		Products/ Licenses		Other		Total	
	31.03.2019	Previous year	31.03.2019	Previous year	31.03.2019	Previous year	31.03.2019	Previous year	31.03.2019	Previous year
Earnings position										
Sales	85,077	72,518	662	746	5,547	15,103	0	0	91,286	88,367
Production costs	-58,681	-52,620	-473	-445	-4,078	-11,758	0	0	-63,233	-64,823
Business development	-2,221	-2,521	-55	-129	-60	-125	0	0	-2,336	-2,775
Operating costs	-5,390	-5,642	-97	-165	-181	-419	-6,818	-5,178	-12,486	-11,404
EBITDA	18,785	11,735	37	7	1,228	2,801	-6,818	-5,178	13,231	9,365
Depreciation and amortization	-1,638	-496	0	0	0	-11	-100	-1,347	-1,738	-1,853
EBIT	17,146	11,239	37	7	1,228	2,790	-6,918	-6,525	11,493	7,512
Interest	30	-12	0	0	0	0	-187	-17	-157	-29
Income tax	-5,872	-3,005	-13	-2	-420	-746	2,369	1,745	-3,936	-2,008

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





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KPS GROUP
SELECTED EXPLANATORY NOTES

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.

Principles for drawing up the financial statements

The consolidated interim financial statements drawn up by KPS AG for the period from 1 October 2018 to 31 March 2019 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 2018.

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 2019. The same accounting and valuation principles are used for the consolidated interim financial statements as for the consolidated financial statements drawn up as at 30 September 2018. 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.

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	Capital and voting share	
		31.03.2019 in %	31.03.2018 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	Zurich/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
Envoy Digital Ltd.	London/England	100	100

Disclosures on related parties

We refer to the consolidated financial statements dated 30 September 2018 for information about related companies and persons (related parties). As at 31 March 2019, no significant changes have taken place.

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 2018/2019 and is permanently available on the company's website <https://www.kps.com/de/investor-relations.html>.

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 2019

KPS AG
The Executive Board

KPS AG Group Interim Financial Statements in accordance with IFRS

DEVELOPMENT OF THE FIXED ASSETS (GROSS PRESENTATION)

ITEM	ACQUISITION OR PRODUCTION COSTS			
in KEuros	01.10.2018	Additions	Disposals	31.03.2019
I.) INTANGIBLE ASSETS				
1. Concessions, industrial property rights and similar rights and assets, and licenses in such rights and assets				
a.) if acquired	13,889	162	0	14,051
b.) if internally generated	10,324	1,521	0	11,845
2. Advance payments made	0	0	0	0
3. Goodwill	77,561	0	0	77,561
Intangible assets	101,774	1,683	0	103,457
II.) PROPERTY, PLANT AND EQUIPMENT				
1. Business and office equipment	3,351	82	0	3,433
2. Low-value assets	38	32	15	55
3. Advance payments received	0	0	0	0
Property, plant and equipment	3,389	114	15	3,488
Total fixed assets	105,163	1,797	15	106,945

ACCUMULATED DEPRECIATION				BOOK VALUE	
01.10.2018	Additions	Disposals	31.03.2019	31.03.2019	30.09.2018
6,726	1,177	0	7,903	6,148	7,163
1,297	390	0	1,687	10,158	9,027
0	0	0	0	0	0
15,016	0	0	15,016	62,545	62,545
23,039	1,567	0	24,606	78,851	78,735
2,353	171	0	2,524	909	998
12	0	0	12	43	26
0	0	0	0	0	0
2,365	171	0	2,536	952	1,024
25,404	1,738	0	27,142	79,803	79,759

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 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 2019

KPS AG
The Executive Board

