Annual Report

2010

GK SOFTWARE

Summary of Consolidated Results

	31.12.2010	31.12.2009	Growth
Sales (tEUR)	27,690	23,277	+19.0%
Total operating revenue (tEUR)	28,338	23,471	+20.7%
Operating performance (tEUR)	29,706	24,297	+22.3%
EBIT (tEUR)	6,435	4,890	+31.6%
EBIT margin (on sales)	23.2%	21.0%	
EBIT margin (on total operating revenue)	21.7%	20.1%	
EBT (tEUR)	6,307	5,033	+25.3%
Annual net income (tEUR)	4,471	3,517	+27.1%
Earnings per share (weighted) [1]	2.68	2.11	
Earnings per share (diluted) (EUR)[2]	2.68	2.11	
Equity ratio	54.3%	47.3%	
Net debt (tEUR)	−7,457	−3,934	

Developments in terms of quarters

tEUR	Q1/2010	Q2/2010	Q3/2010	Total/2010
Sales	5,752	12,470	17,078	27,690
EBIT	1,059	2,471	2,318	6,435
Surplus funds	1,019	1,630	1,571	4,471

1 The calculations are based on the average number of shares entitled to share in the profits (i.e. 1,668,767) on 31 December 2010. There were 1,665,000 shares entitled to share in the profits on 31 December 2009, which represented earnings per share of EUR 2.11. Based on this number of shares, the results per share for 2010 would be EUR 2.34. If we assume that the number of shares entitled to share in the profits was 1,790,000 on 31 December 2010, this would represent earnings per share of EUR 2.18 in 2010 and EUR 1.96 for the previous year.

2 During the business year, options on 12,300 shares were given to group employees as part of a share option program.

Contents

1. Quarter

Order from MPREIS to equip approx. 200 supermarkets in Austria and Northern Italy

Increasing the free float to 34.82% as a result of a private issue by existing shareholders

Strategic partnership with Hornbach to equip all the home improvement stores in nine European countries

2. Quarter

Order from Ludwig Beck to equip the famous headquarters in Munich and all its other branches

Major order from the X5 Retail Group to equip more than 1,000 stores at Russia's biggest retailer

Opening the third part of the building at corporate headquarters in Schöneck to house modern laboratories

Entrepreneur des Jahres
Sieger 2010

Deloitte. 2010
Technology Fast 50
Deutschland

Highlights 2010

3. Quarter

Expanding the reseller agreement with SAP so that SAP can now sell the POS software too

Decision by EDEKA Rhein-Ruhr to introduce GK/Retail, the first success as part of the expanded reseller agreement with SAP

CEO Rainer Gläß receives award as **entrepreneur of the year**

4. Quarter

Order from Unicare Pharmacy Ltd, Ireland's largest drugstore retailer, to introduce GK/Retail

Partnership with Bizerba to develop an open solution for PC scales

Successful **realization of the EDEKA Market of the Future** in-house pilot project

Order from Christ Juweliere und Uhrmacher seit 1863 GmbH to introduce GK/Retail

Successful **cash capital increase** from authorized capital

Partner for the retail trade

Partner for the Retail Trade

GK SOFTWARE AG supplies leading retailers on the international market with strategically important software solutions to handle crucial business processes in their stores.

GK SOFTWARE AG is a global technology and innovation leader in the growing market for retail IT solutions with its open GK/Retail Business Suite, which runs on any platform and is fully programmed in Java.

Dynamic Growth

GK SOFTWARE AG has been growing dynamically for many years and has been able to attract leading retailers as customers. They operate approx. 20,000 stores in more than 30 countries using solutions from GK SOFTWARE AG.

Growth in sales at GK SOFTWARE AG in 2010 amounted to approx. 19 percent and high profit levels were maintained. Sales have nearly doubled during the past two years.

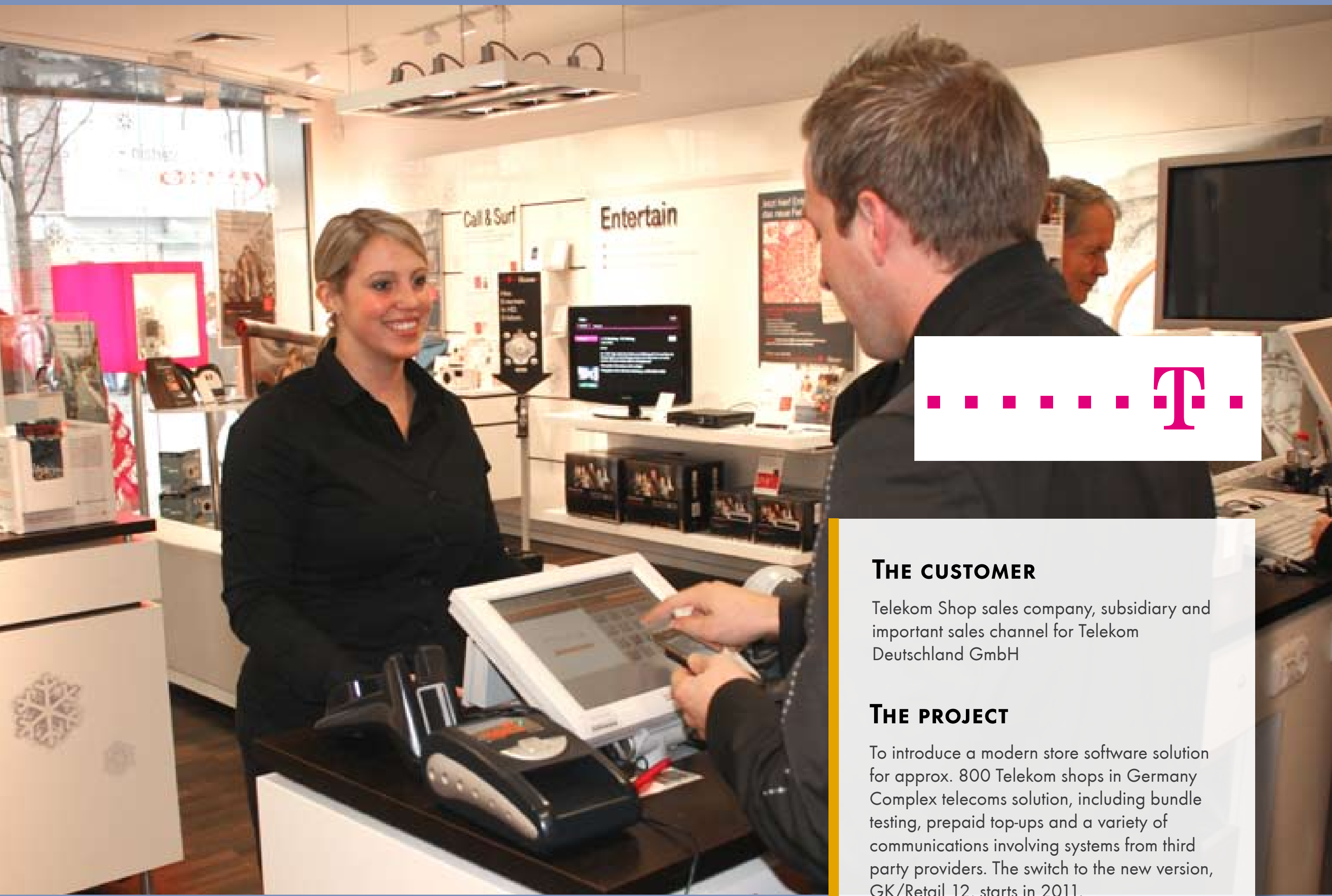
Dynamic Growth

Comprehensive software Packages

Comprehensive Software Packages

GK SOFTWARE solutions allow retailers to efficiently operate all the processes related to **customers** – e.g. cash transactions or customer loyalty – and related to goods – ranging from scheduling to incoming **goods** and even inventories.

The comprehensive range of products provides leading market solutions for the central **management** of stores scattered across in-ternational borders and **infrastructure** solutions to directly link stores to central retail systems.



The customer

Telekom Shop sales company, subsidiary and important sales channel for Telekom Deutschland GmbH

The project

To introduce a modern store software solution for approx. 800 Telekom shops in Germany Complex telecoms solution, including bundle testing, prepaid top-ups and a variety of communications involving systems from third party providers. The switch to the new version, GK/Retail 12, starts in 2011.

The benefits

The Telekom shops play a major role in customer relations management, as the work performed by employees largely consists of providing advice and service. The Telekom shops system has been continually further developed, both during the initial project phase and at a later stage. This has included incorporating the sale of various card products in the till software (iTunes etc.) or the online communications with systems at third-party providers – e.g. for marketing electricity. The customer is expecting a new software technical platform from GK/Retail 12, with simplified and expanded configuration opportunities."

Successful Projects

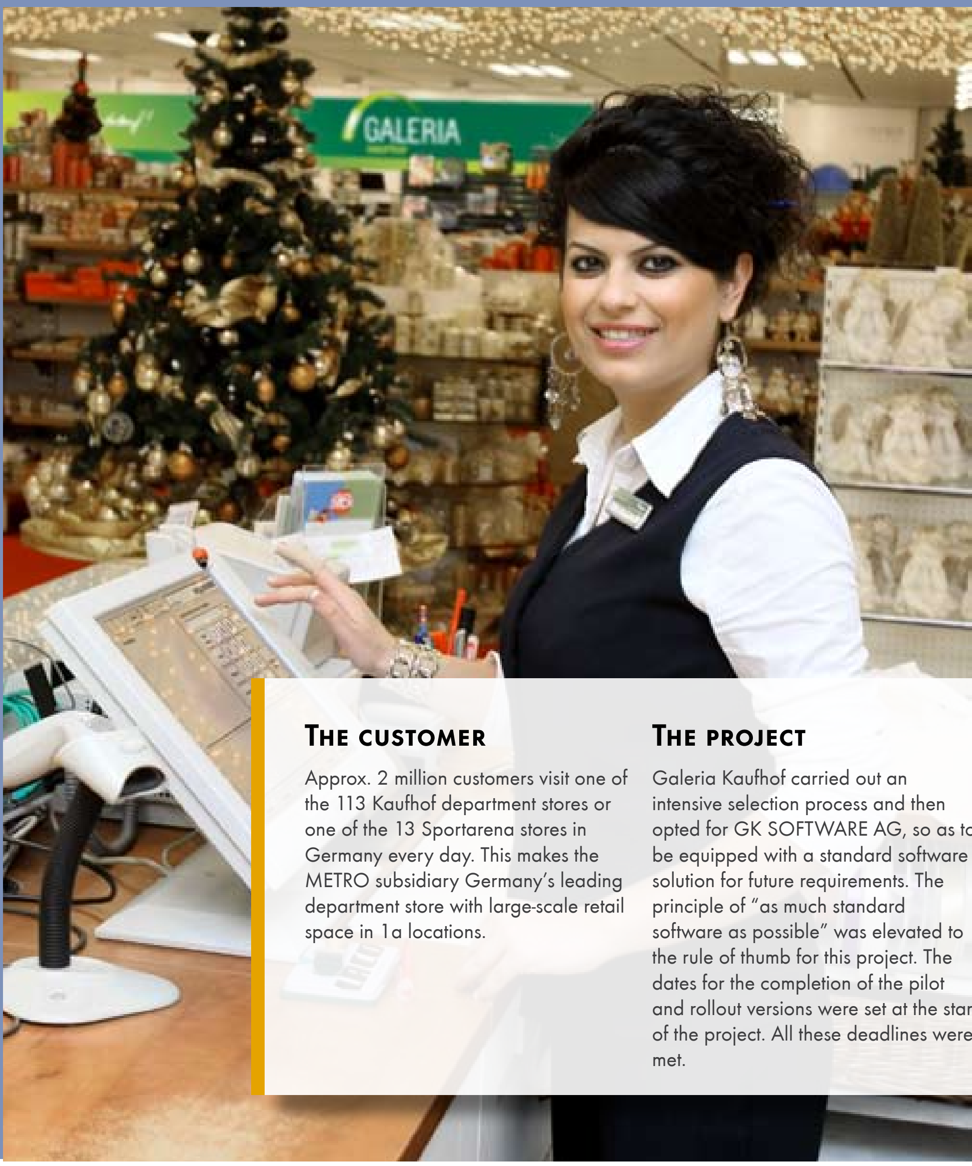
"By switching to the new version of GK/Retail, we are expecting a significant increase in the degree of standardization, improved capability to configure the product and a shorter time-to-market as a result of modern software and distribution technologies."

Dr. Wolfgang Weniger, Head of IT Telekom Shop Sales Company

Satisfied Customers

"We deliberately selected a standard software solution in order not to lose contact with future developments at GK/Retail."

Hansjörg Bausch, IT Organization Manager at Galeria Kaufhof



GALERIA KAUFHOF

The customer

Approx. 2 million customers visit one of the 113 Kaufhof department stores or one of the 13 Sportarena stores in Germany every day. This makes the METRO subsidiary Germany's leading department store with large-scale retail space in 1a locations.

The project

Galeria Kaufhof carried out an intensive selection process and then opted for GK SOFTWARE AG, so as to be equipped with a standard software solution for future requirements. The principle of "as much standard software as possible" was elevated to the rule of thumb for this project. The dates for the completion of the pilot and rollout versions were set at the start of the project. All these deadlines were met.

The benefits

The introduction of the new system was made with the clear aim of achieving comprehensive optimization in daily business operations. Many business processes were redefined and introduced with GK/Retail. New and optimized processes reduce the processing times and enable employees to serve customers faster.

Ronald Scholz
COO

Rainer Gläß
CEO

André Hergert
CFO

Stephan Kronmüller
CTO

To the Shareholders

Rainer Gläß, CEO

Letter from the Management Board

Dear shareholders,

GK SOFTWARE[1] was able to continue its success story in fiscal 2010 and managed to significantly increase its sales, operating performance and total operating revenue as in previous years. Sales revenues rose to EUR 27.7 million and therefore exceeded the figure for the previous year by almost one fifth. Earnings before interest and tax (EBIT) also rose markedly and at EUR 6.43 million were about 32 percent above the previous year's figure. As a result, the EBIT margin related to sales reached an excellent figure of 23,2 percent. The consolidated profits also grew in comparison with the previous year to EUR 4.47 million or by 27.0%.

The basis for this growth lies in GK SOFTWARE's ongoing ability to win new customers and to provide outstanding quality and speed in its existing projects.

Several important orders were won in fiscal 2010, which were highly significant both from their financial importance and the consequences for the development of the standard product. For instance, GK SOFTWARE started working for Ludwig Beck, a leading customer in the fashion field. The first major order to equip bakeries/cafés was obtained within the cooperation arrangement with the Austrian company, BAGUETTE Bistro-Betriebs G.m.b.H. The major order from Hornbach extended the standard project by special features needed by the home improvement retail sector. An international customer in the English-speaking world was won in the shape of Unicare Pharmacy and the standard software was then extended to include specific features for drugstores. As a result of our cooperation arrangement with SAP, an order for GK/Retail was received from the second regional company at Germany's leading food retailer – EDEKA Rhein-Ruhr. We should also underline that the X5 Retail Group – Russia's largest, rapidly growing retailer – has decided to use GK/Retail, following the successful pilot project. As a result, new international customers were won in 2010 and we managed to successfully tap into more retail sectors.

In terms of existing projects, fiscal 2010 was dominated by our work to complete our contribution to the LUNAR program at EDEKA and the huge progress made in our other projects. The company has supplied the store software in partnership with SAP for the LUNAR program at EDEKA, one of the world's largest IT projects in the retail sector. As a result, it is possible for the first time to provide a so-called end-to-end link between stores and enterprise headquarters in direct connection with the SAP central system and therefore handle important processes in almost real time – for instance, in the field of merchandise management or supplying master data. We are particularly proud that this project – which is also significant for the ongoing development of the company – started commercial pilot operations on time at the end of February 2011.

Ongoing projects and the existing customer area developed according to plan during fiscal 2010. More than 10,000 new GK/Retail systems were installed as a result of several projects involving very high installation numbers. This enabled us to launch GK/Retail operations in several new countries like China, Bosnia, Bulgaria or Serbia. Rollouts are currently taking place in several projects, while other national versions are being prepared.

Switching existing customer projects to the latest GK/Retail Version 12 is also a major source of business, as demand for this is very high. Directly after the official introduction of the new major update, a start was made on converting systems at the first major customers. This process will continue during fiscal 2011, as our customers are able to obtain major benefits by using the new version. Alongside this, we continued to develop all our existing customer projects in 2010, as new requirements are constantly being developed in

1 In the following text, GK SOFTWARE always refers to the group. "The company" is used in the same way. If the expression GK SOFTWARE AG is used, this only refers to the individual company.

the ongoing retail business sector and these have to be mapped in store software. The SQRS software solutions, which were acquired as part of an asset deal in fiscal 2009, provided a significant contribution to sales in 2010 and will continue to be serviced and supported.

The year 2010 was highly significant for the onward development of GK/Retail, as we continued to expand our software solutions on time in addition to the progress made in various projects. We should particularly mention the successful further sharpening of our profile for mobile merchandise management solutions, which are now fully integrated with SAP; this was achieved as part of the LUNAR program for EDEKA. We have revised our product structure in conjunction with the agreements with SAP covering the sales of our software solutions in order to improve the design of our software solutions.

We currently see a clear trend towards open solutions, even for systems which were partitioned off in the past, like scales or self-checkouts. As a result, we successfully pressed ahead with product development in this field during fiscal 2010. This enabled us to introduce new software solutions for the first time, which attracted a great deal of attention in this field at the sector's leading trade fair, the EuroSHOP in Düsseldorf. We now have our own scales application for various types of trading scales (GK/Retail Open Scale) and this can be seamlessly integrated. This gives retailers the freedom to select various types of hardware without creating different and isolated software pockets. We also used the EuroSHOP to present our POS software for the new IBM Self-Checkout System 6 for the first time together with our partner IBM; this is another open software solution. This cooperation arrangement also reduces the level of complexity in stores, as it is now possible for the first time to use the same software on all the POS systems, including the various self-checkout solutions produced by different manufacturers. This opens up significant potential for reducing costs in the retail sector.

We have made a significant development in the area of our store solutions too. Working closely with a design office, we managed to completely revise all the GUIs (Graphical User Interfaces) – in addition to introducing many technical developments in the software. The new interfaces meet the highest ergonomic requirements and set new standards for the sector in terms of design. Another major emphasis in this field consisted of developing new GK/Retail applications for modern mobile devices like iPads or iPhones, which we presented at the EuroSHOP for the first time too.

The company's positive development was mirrored by the development of the share price. The price rose by almost 50 percent during the course of the year to EUR 50.90 on 31 December 2010. As a result, the value of GK SOFTWARE shares has risen by approx. 250 percent since the IPO on 19 June 2008. This positive development was supported by a significant broadening of the free float allocation of shares in March 2010 as a result of a private issue by existing shareholders and an increase in capital from authorized capital at the end of the year.

The company's annual shareholders' meeting emphatically supported the course being pursued by the Management Board, as all the suggestions for decisions were unanimously accepted without any abstentions.

Following the successful business year in 2010, we are expecting a continuation of our positive corporate development in the current year and are anticipating further growth in sales with appropriate levels of profitability. We are involved in far-reaching negotiations with potential customers in Germany and abroad and will continue to develop all our projects according to plan.

We assume that sales could rise by more than ten percent again in fiscal 2011 too, if business goes well. We are anticipating a level of profitability similar to that of previous years. This forecast is subject to the proviso that no extraordinary events take place, which could trigger a negative impact on the overall economy or the retail sector. We would particularly mention the events in Japan or the political uncertainty linked to circumstances in the Arab world, which have the potential to create long-term disruption to the global economy.

Despite this, we are confident about 2011, for we are outstandingly equipped to meet the needs of the retail sector with our range of software products.

We are delighted that you are supporting growth at GK SOFTWARE AG and we would like to thank you for the long-term confidence that you have placed in the company.

The Management Board

Rainer Gläß
(CEO)

Stephan Kronmüller
(CTO)

Ronald Scholz
(COO)

André Hergert
(CFO)

Corporate Governance Report

according to Section 289a of the German Commercial Code

GK SOFTWARE views responsible and transparent performance as absolutely essential for the long-term economic creation of value. Both the Management and Supervisory Boards have provided the statutory statement of compliance according to Section 161 of the German Stock Companies Act. It is an important task for the Management and Supervisory Boards to monitor whether this statement is being followed. The statement is submitted every year and is available to the public on the Internet at http://investor.gk-software.com under the "Corporate Governance" section.

Cooperation between the Management and Supervisory Boards

The Management Board works with the Supervisory Board based on a relationship of trust. The Management Board provides regular reports to the Supervisory Board about the profitability and strategy of the Group and implementing these plans, but also about possible risks in developments, and not just during the normal Supervisory Board meetings, which were held three times in the past year, but also directly to the Chairman of the Supervisory Board each month, as a general rule. You can find more on this in the report from the Supervisory Board. Because of its composition (just three members), the Supervisory Board did not form any committees and all the subject matter was discussed and decisions were made by the full body. The Chairman of the Supervisory Board is solely entitled to conduct negotiations for human resources decisions related to the Management Board, but these negotiations have to be authorized by the whole body. There were no conflicts of interest for members of the Management and Supervisory Boards.

Transparency

GK SOFTWARE deliberately decided to have its IPO in the summer of 2008 listed on the most stringently controlled segment of the German Stock Exchange, the Prime Standard. The highest possible degrees of transparency towards its investors and all the other participants in the capital markets have been some of the most important principles at the company from the outset.

The company will appoint a voting proxy for the 2011 annual shareholders' meeting and this will allow shareholders, who cannot attend the annual shareholders' meeting, to exercise their voting rights. All the public information, like ad-hoc and press releases, the financial reports and the reports for the annual shareholders' meeting will be available on the company's website.

Risk Management

The risk management system established by the company is geared towards the needs of the business. It is designed to recognize risks at an early stage and help prevent or restrict risks that occur. We would refer you to the group management report for further details.

Statement of Compliance

Section 161 of the German Stock Companies Act obliges the Management Board and the Supervisory Board at GK SOFTWARE AG to make an annual declaration that compliance has been or is being achieved with regard to the recommendations of the "Government Commission on German Corporate Governance Code" published by the German Minister of Justice in the official section of the electronic German Federal Gazette, or to state which recommendations have not been or are not being complied with.

This declaration must be made available to shareholders at all times.

The last annual declaration was submitted in April 2010. The following declaration for the past relates to the version of the Code dated 18 June 2009. The following declaration for the future corporate governance procedures at GK SOFTWARE AG relates to the recommendations contained in the Code in the version dated 26 May 2010.

The Management and Supervisory Boards at GK SOFTWARE AG declared on 12 April 2011 that the recommendations of the "Government Commission on German Corporate Governance Code" had been satisfied since the release of the last annual statement of compliance in April 2010 with the exceptions noted in the declaration in April 2010 and is being met with the following exceptions.

- **Code Number 2.3.1 and 2.3.3** The company will refrain from granting the opportunity for postal voting at the next annual shareholders' meeting. The paragraphs within the Code quoted here only support postal voting if the company makes use of this opportunity in Section 118, Paragraph 2 of the German Stock Companies Act. In the process of adapting the articles of incorporation at GK SOFTWARE AG to the statutory specifications contained in ARUG (The Act for Implementing Shareholders' Rights) at the annual shareholders' meeting on 17 June 2010, the company took into account the possibility of exercising postal voting rights by way authorization provided by the Management Board. Because of what is in our opinion the inadequate legal security for the specific arrangements for existing shareholder postal voting rights, the Management Board will refrain from using the opportunity of using postal voting at the next annual shareholders' meeting.
- **Code Number 2.3.4** The company will not provide any Internet webcast of the annual shareholders' meeting, as the Management and Supervisory Boards believe that this would not create a higher participation level at the annual shareholders' meeting.
- **Code Number 4.1.5** The candidates for management functions will be selected by the Management Board on the basis of their personal skills and abilities in the interests of the company. When making selections, the objective backgrounds of the candidates in terms of their age, background or sex are not taken into account.
- **Code Number 4.2.4** The company does not indicate the earnings of the members of the Management Board in the annual accounts by name. The total earnings of the members of the Management Board are disclosed. This departure based on the decision taken by a qualified majority of three quarters of the share capital represented at the annual shareholders' meeting at the meeting held on 17 June 2010 according to Section 286, Paragraph 5 and Section 314, Paragraph 2, Sentence 2 ruled that the individual earnings should not be published in the annual and consolidated accounts from 2010 until 2014.
- **Code Number 5.1.2** The Supervisory Board will exclusively take into account the personal suitability arising from the candidate's individual abilities and skills when appointing people to vacant positions on the Management Board, as this will lead to the best results for the company. Objective criteria like age, background or sex will not be included in any considerations. There is no age limit for members of the Management Board; in the view of GK SOFTWARE AG, the professional qualifications of the members of the Management Board play a more important role.
- **Code Number 5.3** In a departure from Number 5.3 of the Code, the Supervisory Board at GK SOFTWARE AG does not form any committees, as consistent, extensive information for all the members of the Supervisory Board can be guaranteed most efficiently in meetings where all the members of the Supervisory Board are present (the Supervisory Board consists of only three members). Any issues can be handled and answered appropriately by the whole body. So no auditing committee (Number 5.3.2) has been set up. The same applies to the nomination committee (Number 5.3.3) or other specialist committees (Number 5.3.4).

- **Code Number 5.4.1** The composition of the Supervisory Board at GK SOFTWARE AG is not subject to the Supervisory Board, but the company's annual shareholders' meeting. The Supervisory Board seeks to engage in successful cooperation between its members and constructive cooperation with the Management Board. The proposals for candidates, whom the Supervisory Board submits to the annual shareholders' meeting, will take into account the geographical distribution and the degree of complexity of the business at GK SOFTWARE. Criteria like the age, background or sex of the candidates will not be taken into consideration. There is no provision for an obligatory age limit for the members of the Supervisory Board, as the older members of the Supervisory Board in particular enrich the body as a result of their wide experience, and their specialist qualifications are of greater importance.
- **Code 5.4.6** Payments for the members of the Supervisory Board are made exclusively according to fixed elements. No remuneration that is dependent on the company's success is granted to the members of the Supervisory Board, as the members of the Supervisory Board must be able to pursue their tasks as a supervisory body for the company without any possible conflict of interests.
- **Code 7.1.2** The consolidated accounts are not published within 90 days after the end of the fiscal year, but after four months in line with the current guidelines published by Deutsche Börse AG. The interim reports are not made available within 45 days, but after two months according to the current guidelines published by Deutsche Börse AG. GK SOFTWARE AG believes that the periods of time set by Deutsche Börse AG are adequate to provide shareholders with sufficient information.

Report by the Supervisory Board

Uwe Ludwig, Aufsichtsratsvorsitzender

Dear shareholders,

Fiscal 2010 was another very successful year for GK SOFTWARE AG in its corporate history and I am delighted to be able to present the report by the Supervisory Board in the light of this.

Composition of the Supervisory Board

According to the articles of incorporation, the Supervisory Board consists of three members. In fiscal 2010 they were:

- Uwe Ludwig (Chairman)
- Heinrich Sprenger (Deputy Chairman)
- Thomas Bleier

Mr. Ludwig and Mr. Sprenger have both been appointed until the end of the annual shareholders' meeting in 2011, while Mr. Thomas Bleier's appointment ends with the conclusion of the annual shareholders' meeting in 2014.

Meetings

In addition to the three normal meetings held during fiscal 2010 on 21 April, 31 August and 29 November 2010, three telephone conferences took place to approve the 2009 annual accounts (on 30 April 2010) and to ratify the 2009 consolidated accounts and prepare and implement the increase in capital from authorized capital entered in the German Register of Corporations on 23 December 2010. All the members of the body attended all the normal meetings and representatives of the Management Board were also present. The members of the Supervisory Board were also regularly in contact with each other outside the meetings – and the Chairman of the Supervisory Board in particularly also maintained contact with the Management Board. Decisions were made during meetings or by a circulation procedure. During its meetings the Supervisory Board received both verbal and written reports from the Management Board about the business and financial situation within the company and about the fundamental business policy. The Management Board provided regular intermediate reports on business developments.

Tasks of the Supervisory Board

The Supervisory Board at GK SOFTWARE AG fulfilled for the fiscal year the tasks incumbent upon it according to the law, the articles of incorporation, the recommendations of the "German Corporate Government Code" government commission and the Supervisory Board's rules of internal procedure and monitored company managers continually.

The ongoing development of the risk management systems was a constant issue. The Supervisory Board was able to favorably observe the launch of a comprehensive safety concept and the establishment of formalized administrative processes. The Supervisory Board paid further attention to the acceptability of the earnings of the members of the Management Board. As in the previous year, attention was paid to the relationship between the earnings and the company's economic situation and a comparison with other corporations, a comparison with the overall structure of the earnings within GK SOFTWARE and the composition of fixed and variable elements in salaries. There was no need to make any adjustments.

The Supervisory Board also decided to appoint the three members of the Management Board, whose appointments ran out during the first quarter of 2011, for a further five years. This concerns the following members of the Management Board: Mr. Rainer Gläß, Mr. Stephan Kronmüller and Mr. André Hergert. This secures continuity in the company's management team, which has been responsible for the gratifying developments over the past few years.

In carrying out its monitoring work of company managers, the Supervisory Board based its deliberations on the annual budget that was passed for 2010 and received reports from the Management Board particularly concerning the business policy and corporate planning, profitability, the course of business and the major individual measures adopted by the company. The Supervisory Board received verbal reports on the company's state of development in general and operating business in particular at meetings held during the fiscal year for this purpose. The Management Board also supplied the Supervisory Board with information outside the official meetings and this was also discussed and checked by the Supervisory Board.

Corporate Governance

The Supervisory Board and Management Board act in the full knowledge that good corporate governance forms an important basis for the company's success and is in the best interests of shareholders and equity markets. The Management Board and the Supervisory Board issued their annual declaration of compliance in line with Section 161 of the German Stock Companies Act in April 2011. The wording of this is printed in this business report as part of the Corporate Governance report. The Management Board and the Supervisory Board have pledged to the relevant degree to follow the recommendations of the German Corporate Governance Code. No conflicts of interest arose in members of the Supervisory Board during fiscal 2010.

2010 Annual Accounts Audit

The GK SOFTWARE AG annual accounts compiled by the Management Board in line with the rules of the German Commercial Code and the IFRS Consolidated Accounts and each situation report have been audited by the auditing company, Deloitte & Touche GmbH, and were given an unqualified audit certificate. Taking into account these auditing reports, the Supervisory Board has examined the annual accounts compiled by the Management Board, the consolidated accounts, the dependency report, the situation report at GK SOFTWARE AG and the Group and checked the suggestion made by the Management Board for the use of the balance sheet profits. During its meeting on 13 April 2011, the Supervisory Board asked the Management Board to explain the 2010 annual and consolidated accounts and report on profitability, particularly the company's equity, the course of business and the company's situation. All the Supervisory Board members received the necessary documents prior to this meeting.

The auditor commented on the Management Board's verbal presentation of the accounts and explained the audit findings using the auditor's reports and answered every question on these reports. The auditor was able to satisfactorily answer all the questions. There are no doubts about the auditor's independence. During its meeting on 13 April 2011, the Supervisory Board approved the annual accounts for GK SOFTWARE AG and authorized the consolidated accounts at GK SOFTWARE. As a result, the annual accounts have been approved. The Supervisory Board also agreed to the Management Board's suggestion on how to use the balance sheet profits.

The Supervisory Board also prepared a report on relations to associated companies in line with Section 312 of the German Stock Companies Act. The auditor checked this and provided a verbal report on the results of his audit during the balance sheet meeting on 13 April 2011. Checks made by the Supervisory Board did not give rise to any reasons for objections to be raised. He did not have any objections to the Management Board's final declaration in his report in line with Section 312 of the German Stock Companies Act.

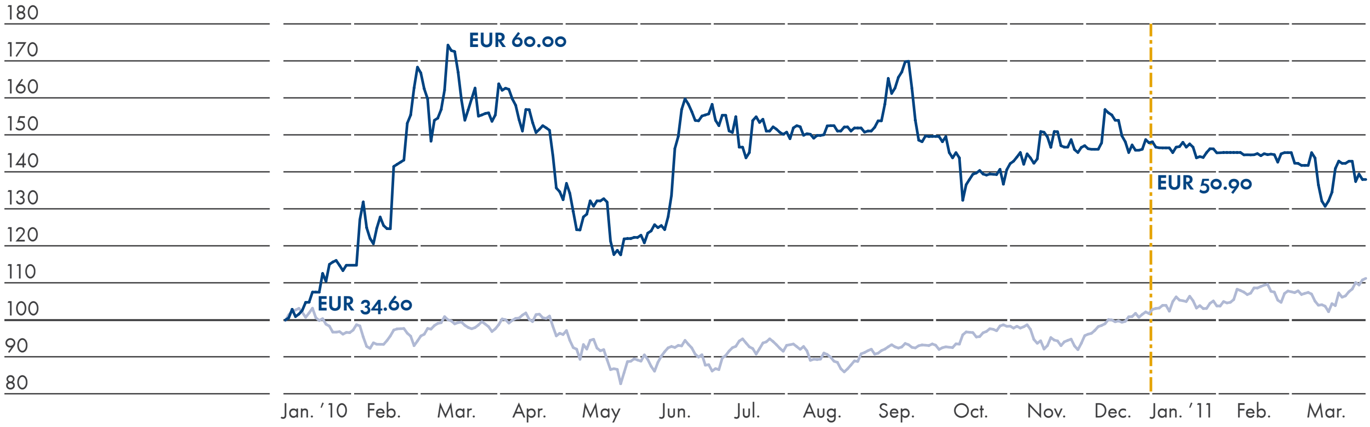
The Supervisory Board would like to thank the Management Board and every member of staff for their commitment to the company and the work that they have performed and wishes them all further success.

Schöneck, 13 April 2011

Uwe Ludwig
(Chairman of the Supervisory Board)

GK SOFTWARE AG Shares

Development of GK SOFTWARE shares in comparison to the TecDax
from 4 January 2010 until 31 December 2010, indexed, in percent



Basic data

Basic data	
Securities Identification Number (WKN)	757142
ISIN	DE0007571424
Trading symbol	GKS
GK SOFTWARE AG IPO	19 June 2008
Type of shares	Ordinary stock in the name of the holder without any nominal value (individual share certificates)
Trading markets	Frankfurt and XETRA
Market segment	Regulated Market (Prime Standard)
Designated Sponsor	ICF Kursmakler AG
Number of shares	1,790,000
Share capital	EUR 1,790,000
Free float	42.63 %
Highest price in 2010	EUR 60.00 (11 March 2010)
Lowest price in 2010	EUR 34.60 (4 January 2010)

Summary/Share Performance

The GK SOFTWARE AG shares listed in the Prime Standard segment of the Frankfurt Stock Exchange continued their upward trend during the whole of fiscal 2010, after their value had almost tripled in fiscal 2009. The price of the shares was EUR 34.40 at the beginning of January and reached their all-time high of EUR 60 on 11 March. The price of the shares was very stable during the ensuring period. GK SOFTWARE shares were trading at EUR 50.90 at the end of 2010. This represented a market capitalization figure of slightly more than EUR 91 million.

Shareholder Structure

GK SOFTWARE AG has a very stable shareholder base, which is enabling the company to develop in the long term in a sustainable manner. The company had the following shareholder structure on the reporting date on 31 December 2010: The founder and CEO Rainer Gläß directly held 2.95% of the shares. Stephan Kronmüller, also a company founder and the CTO on the Management Board, directly held 2.09% of the shares. 52.33% of the shares were owned by GK Software Holding GmbH, which was indirectly equally shared by the company partners Rainer Gläß and Stephan Kronmüller. This meant that 42.63% of the shares were in free float on 31 December 2010.

On 17 December 2010, the Management Board decided to make partial use of the authorization granted at the 2008 annual shareholders' meeting to make capital increases from the authorized capital of EUR 625,000.00 with the approval of the Supervisory Board. The Supervisory Board approved the Management Board's implementation decision to increase the capital by EUR 125,000.00 to EUR 1,790,000 by issuing 125,000 ordinary shares in the name of the holder without any nominal value at a price of EUR 50 each. The capital increase was recorded in the German Register of Corporations on 23 December 2010.

The following companies continue to have a shareholding in GK SOFTWARE AG, which exceeds the 3% threshold level:

- Universal-Investment-Gesellschaft mbH, Frankfurt am Main 3.015 percent (on 26 June 2009)
- Mr. Andreas Bremke 3.01 percent (on 1 September 2010)

Directors Dealings in 2010

Rainer Gläß, Management Board
Sale: 17.3.2010 90,000 shares at EUR 50.00
Sale: 17.12.2010 29,150 shares at EUR 50.00

Stephan Kronmüller, Management Board
Sale: 17.3.2010 90,000 shares at EUR 50.00
Sale: 17.12.2010 29,150 shares at EUR 50.00

Ronald Scholz, Management Board
Sale: 10.6.2010 8,000 shares at EUR 43.00

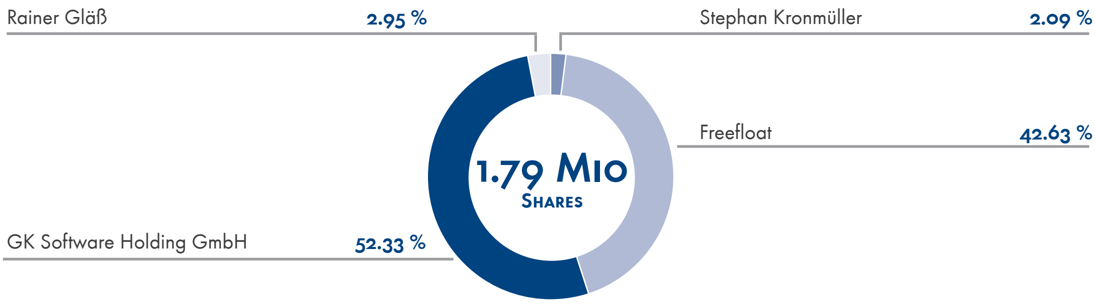
Investor Relations

GK SOFTWARE AG deliberately opted to have its shares listed on the most strictly regulated sector of the Deutsche Börse, the Prime Standard, for its IPO in the summer of 2008. From the outset, the highest levels of transparency towards its investors and all the other capital market participants have been some of the most important principles at the company.

André Hergert, the CFO, is responsible for the investor relations business and he has his own department that reports to him. This guarantees that any enquiries from investors and potential investors are answered immediately.

GK SOFTWARE AG also attaches great importance to providing an ongoing flow of information for the future. Among other things, this means drawing up quarterly, half-yearly and annual business reports in German and English, publishing a financial calendar and promptly publishing ad-hoc reports and corporate news items. The accounting system has been adapted to the international IFRS accounting standards and this meets investors' needs for information. As in previous years, GK SOFTWARE AG is also planning to hold its annual analyst conference for 2011 during the Frankfurt Equity Capital Forum. Investor and press road shows also take place at regular intervals so that the company remains in permanent contact with the capital markets.

Shareholder structure
at GK SOFTWARE AG on 31 Dec. 2010



Consolidated Annual Report

Business Report

Business and General Conditions at GK SOFTWARE

Corporate Structure and Holdings

- Five business locations in Europe and sales branches in the USA, Great Britain and Russia
- Both company founders are Management Board members

GK SOFTWARE AG is one of the world's leading technology companies for retail software with a special focus on providing solutions for corporations with local stores. GK SOFTWARE AG and its predecessor company, G&K Datensysteme GmbH, which Rainer Gläß and Stephan Kronmüller founded in 1990 and which became GK SOFTWARE AG in 2001, have now been operating in the market place for more than 20 years. The company's IPO took place in the Prime Standard segment of the Frankfurt Stock Exchange in 2008.

The company's headquarters has been located in Schöneck/Vogtland since it was founded. The company has its product development department, project management and third-level support facilities at this base in addition to administration services. SQ IT-Services is also based at this location. It was founded in 2009 to handle the takeover and integration of Solquest GmbH. Schöneck is also home to 1. Waldstraße GmbH which was set up in preparation for the launch of new business activities and is also a 100% subsidiary of GK SOFTWARE AG.
GK SOFTWARE AG has a branch next to Checkpoint Charlie in Berlin and it is primarily responsible for managing the marketing, sales and partner activities; the company's user-help desk is also based there.

The Group's second largest business location has now been located in Plzen in the Czech Republic for more than ten years. The 100 percent subsidiary, EUROSOFTWARE s.r.o., is home to the software production and research & development work. Major work on programming and technological further developments for the solutions provided by GK SOFTWARE AG take place at the Plzen base.

GK SOFTWARE AG has another 100% subsidiary in Switzerland in the shape of StoreWeaver GmbH. This company has a German base in the state of Saarland in St. Ingbert.

Group structure
at GK SOFTWARE AG

StoreWeaver GmbH is responsible for the ongoing conceptual development of the StoreWeaver product group and also looks after former customers of Solquest GmbH.

GK Soft GmbH – also a 100% subsidiary – is also based in Zurich; this company was set up in order to handle the Swiss service business.

Corporate sales offices were opened in the USA and Great Britain in 2009.

The GK SOFTWARE AG Management Board includes the two company founders, Rainer Gläß (CEO) and Stephan Kronmüller (CTO). The other members of the Management Board are Ronald Scholz (COO) and André Hergert (CFO).

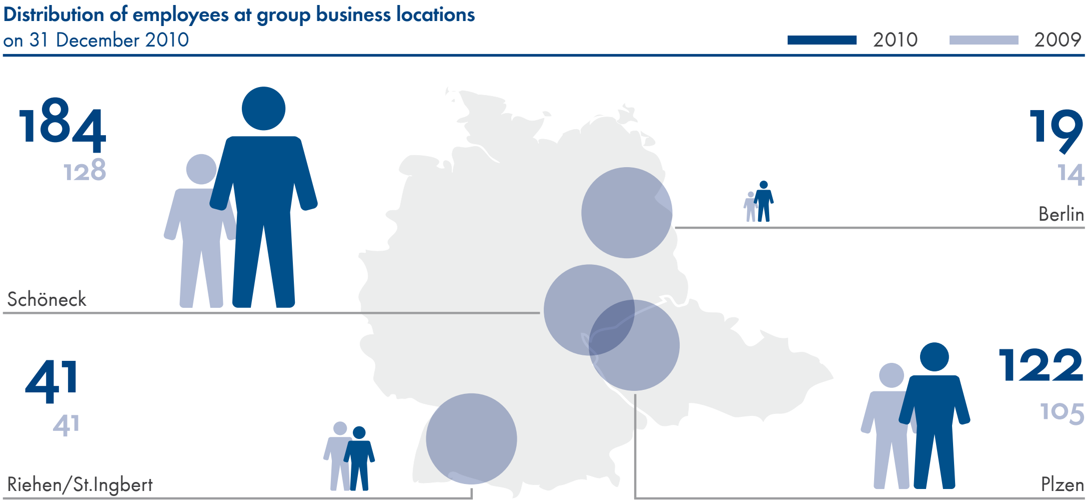
The three-man GK SOFTWARE AG Supervisory Board is led by the Chairman Uwe Ludwig. He has been a member of the Supervisory Board since 2001. The Deputy Chairman Heinrich Sprenger has also been a member of this body since 2001. Thomas Bleier has been part of the Supervisory Board since 2003.

Human Resources

- Human resources growth of almost 26 percent to 366 members of staff now
- Completion of the extension at corporate headquarters in Schöneck
- Trainee and further training programs for the members of staff

366 members of staff were employed within the Group on the reporting date of 31 December 2010 (excluding the Management Board and trainees). This means 75 more members of staff

Distribution of employees at group business locations
on 31 December 2010



Products and Services

Customer

The customer-related business processes include the complete till operations, cash accounting, handling all kinds of gift cards and cou-pons and issuing or accepting bonus points as part of discount systems like Payback or Lufthansa Miles & More. The software package provided by GK SOFTWARE is different from those of its competitors, primarily because it is more technologically advanced, has a broad range of functions and can be used in international contexts.

Goods

The software solutions related to goods were extended to a considerable degree in 2010. They include store merchandise management business processes ranging from inventories to scheduling or stocks and even automatic label printing. GK SOFTWARE has the expertise to dovetail processes in stores with those of a leading central ERP system (like SAP) and make this available in full to mobile units. Solutions for modern advertising in retail stores on a wide variety of digital displays also form part of this.

The solutions provided by GK SOFTWARE provide smooth operations in retail stores. They include a variety of processes related to customers, goods, the technical management of store structures and the availability of tech-nical infrastructure for large local IT landscapes. It is particularly important that the complete software package is contained in a reusable standard product and each new customer project can be based on this. This prevents project islands that deviate from the standard product and product developments can be passed on to existing customers in ongoing sales cycles

Management

The software solutions designed to manage the most complex store structures distributed across international frontiers are one significant unique selling point for GK SOFTWARE in its market environment. They enable the company's customers to centrally manage thousands of stores in very many countries using different languages, currencies or time zones. This is extraordinarily important for local structures as found in store systems in the retail sector, as each till, each printer or even each pair of scales is a critical system for business purposes

Infrastructure

GK SOFTWARE not only supplies the leading front-end software for users in stores and enterprise headquarters in the retail sector. The company's software solutions are also setting standards for the sector in the field of technical infrastructure. GK SOFTWARE's Store-Weaver system provides an integration platform in order to seamlessly network its own and outside software solutions in a store and link them to central systems like ERP or CRM processes.



than were employed in the previous year (291). This represents a growth rate of 25.8 percent. The project management, software development and support departments in particular were expanded in fiscal 2010. The majority of the Group's members of staff (184) are employed at corporate headquarters in Schöneck (128 in the previous year). The appropriate space to expand the staff numbers was created with the completion of the third part of the building. The Berlin branch has 19 members of staff working in the sales & marketing, project and partner management and first-level support (hotline) departments.

The Czech subsidiary EUROSOFTWARE s.r.o. in Plzen employed 122 members of staff on the reporting date at the end of 2010 (105 in the previous year). Development capacity continued to be increased there in fiscal 2010 too.

41 members of staff continue to be employed at the two business locations in Basel/Riehen (CH) and St. Ingbert, as in the previous year.

One member of staff is employed at each of the offices in Great Britain and the USA.

The Management Board believes that the growth in human resources will continue in the future.

Huge investments have been made in training and developing employees for years in order to be able to provide a foundation for and boost sales growth at GK SOFTWARE AG from a human resources point of view too. The successful one-year trainee program to deliberately provide qualified members of staff has been continued. Three young people were taking part in this course on the reporting date on 31 December 2010. The program is designed to offer places for five to seven participants on average each year. Two trainees are also currently employed at GK SOFTWARE AG.

The GK SOFTWARE Software Solutions

- New product structure to adapt to the joint solutions provided with SAP
- New product line developed with GK/Retail Open Scale
- Extending the StoreWeaver Enterprise Edition product line

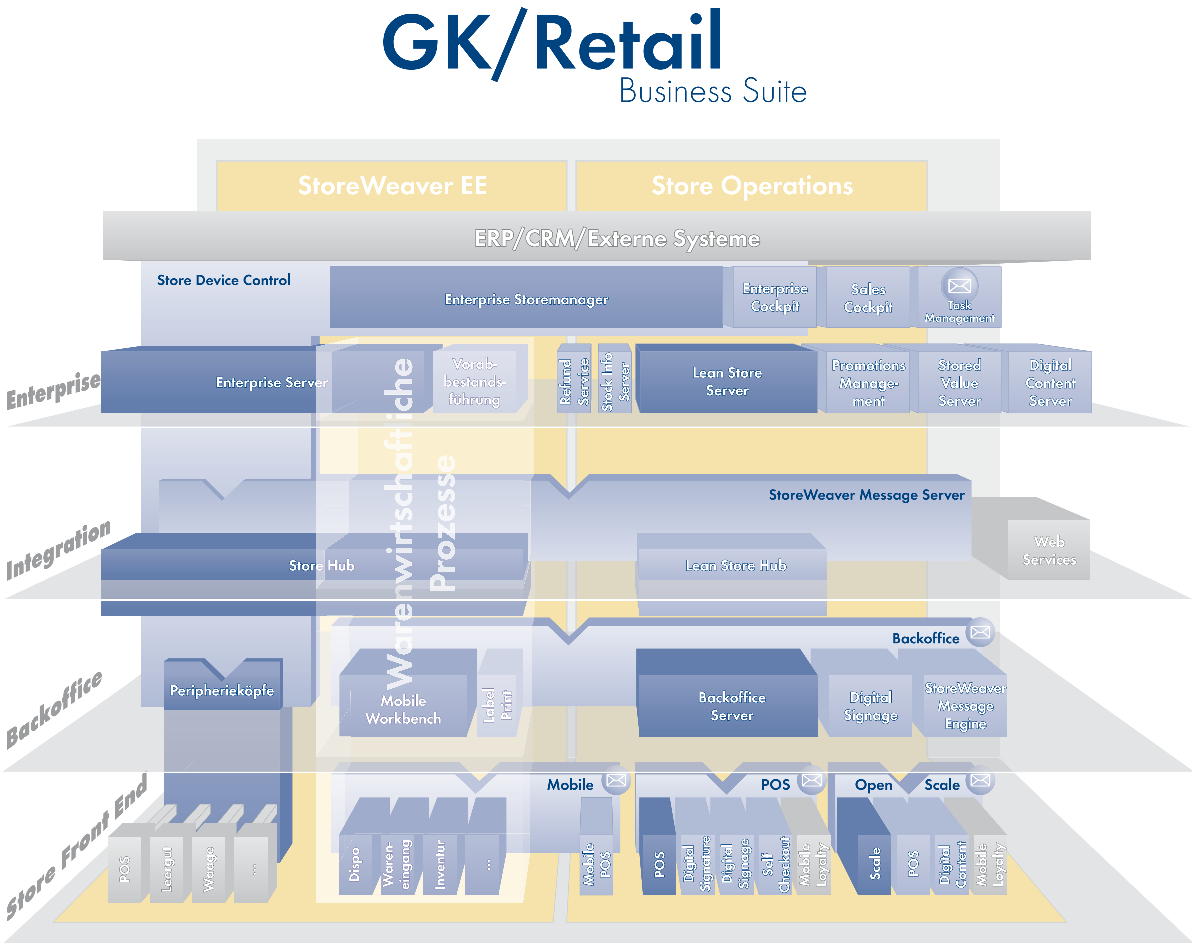
The various GK SOFTWARE products are fully integrated in the GK/Retail Business Suite. But all the solutions can be used alone too. They are fully based on Java and open standards and can therefore operate on any kind of hardware and operating system.

GK SOFTWARE is currently selling Version 12 of the GK/Retail Business Suite. The makeup of the business suite was revised at the end of 2010 in conjunction with the sale of a number of software solutions by SAP. It is now possible to classify each solution better. The GK/Retail Business Suite is arranged on two main pillars. One of them involves the StoreWeaver Enterprise Edition (EE). The other one covers the Store Operations.

StoreWeaver Enterprise Edition

StoreWeaver Enterprise Edition comprises the Store Device Control and Mobile Store Processes components. It is closely linked to the solutions in the Store Operations area, but can be used in complete isolation from this.

- **GK/Retail Store Device Control** provides the end-to-end link within the complete store peripheral equipment, for instance, tills, scales or automatic empties machines. The software handles the automatic distribution of data to all the systems in a store with a direct link to the leading SAP system. This guarantees that any changes to master data (e.g. prices) are available on the correct system within the store at the right time. At the same time, the software ensures that the central systems are supplied with what is known as transaction data (e.g. sales data). The



link for the various subsystems in a store is provided through standardized peripheral heads, on to which solutions from different manufacturers can be docked. The Enterprise Storemanager guarantees the central management of the overall systems landscape. The Enterprise Cockpit handles the monitoring work across the systems. Both solutions can also be used outside the StoreWeaver Enterprise Edition in the field of Store Operations.
The complete software component is sold by SAP under the name “GK Store Device Control from SAP.”

- **GK/Retail Mobile Merchandise Management Processes** covers the store management processes, which can be made available directly to mobile terminals on the floor of the store or in the stock area. The processes, which can be provided online or offline, rely on a leading central system like SAP. They allow the stores to be linked end-to-end with enterprise headquarters in almost real time and manage all the necessary business processes like deliveries, merchandise planning, inventories or automatic label printing.
- This software component is sold by SAP under the name “GK Offline Mobile Store Processes from SAP.”

Store Operations

The GK/Retail Store Operations software provides solutions for use in stores and enterprise headquarters in the retail trade. They are designed to handle all the business processes at tills, shelves, in the stock areas or the back office in the best possible way and manage and monitor complex store structures from enterprise headquarters. All the software solutions are coordinated with each other and can be used by customers as a complete package or separately. The following solutions form part of this product line:

- **GK/Retail POS** iis the market-leading solution for operating till systems. The application guarantees secure handling for all business processes at tills (POS = point of sale) and provides extensive back office functions for managing money, store administration or

Stephan Kronmüller, CTO

reporting purposes. A special edition of this software can also be used for self-checkout systems. SAP sells the software under the name "GK Point of Sale from SAP."

- **GK/Retail Open Scale** is a new software solution within the GK/Retail Business Suite. It is based on the same technical concepts as the other software solutions and is a self-contained application for all kinds of open PC scales. It enables the retail sector to use end-to-end IT structures and be free to select scales from any hardware supplier.
- **GK/Retail Taskmanagement** ensures that information can be automatically distributed simultaneously and in a controlled fashion, e.g. regarding recalls of items, corporate-wide announcements or other information. The module, which has been specially designed for the needs of companies with many stores, allows a very fast and end-to-end flow of information and can also be used on mobile units.
- The **GK/Retail Lean Store Server** allows all the back office servers to be centralized. This means that an important part of the IT systems can be moved out of the stores to enterprise headquarters. This opens up considerable potential for store-based corporations, as they can use more powerful servers, for example, and servicing and maintenance costs can be significantly reduced. GK SOFTWARE AG is the world's leading company for the centralization of background systems for store-based corporations.
- **GK/Retail Enterprise Storemanager** is the market leading software, which provides administration and technical monitoring facilities for major store networks, which may operate in different countries. The software allows corporations to manage and monitor thousands of stores in many countries and is an important unique selling feature of the GK/Retail Business Suite.
- **GK/Retail Enterprise Cockpit** provides managers with a very fast summary of technical and specialist key performance indicators. This means that technical breakdowns in stores are recognized immediately and sales data (e.g. volumes of sales) can be evaluated in real time. This solution provides corporate-wide transparency with regard to the status of systems in stores and supplies central business management data.
- **GK/Retail Enterprise Promotions Management** is a complete solution for designing, carrying out and managing corporate-wide promotions and special offers. It can be used, among other things, to manage discounts on customer card systems or the acceptance of many kinds of coupons at tills.
- **GK/Retail Stored Value Server** guarantees secure, corporate-wide administration services for all the gift cards that have been issued. It provides a central database for supplying all the gift card information within the complete corporation and also handles all the processes related to electronic gift cards.
- **GK/Retail Digital Content Management** is the central software solution for distributing multimedia content to various output devices within the complete corporation. This means that photos, slide shows or videos can be distributed to the relevant systems within the company. The system also allows pure text messages to be sent (e.g. for electronic shelf labels).

The SQRS Software Package

When the company took over the assets of the former company Solquest GmbH, it also took over its software package – Solquest Retail Solutions (SQRS), which is being used by eight customers at approx. 10,000 installations. The particular high-performance features of the software lie in the fields of SAP integration and its mobile solutions. The SQRS software solutions are no longer being sold in order to keep the Group's product portfolio streamlined. But there are still permanent requirements, which are being handled by StoreWeaver GmbH, to cover existing customer relations. Alongside this, a medium-term migration path has been developed in order to provide a long-term perspective for the customers of the former Solquest GmbH company.

Product Development/Certifications

Two minor updates for GK/Retail 12 were released during fiscal 2010 and they have expanded the standard product in line with the road map by providing solution components, functions and interfaces to subsystems.

The solutions provided by GK SOFTWARE AG have attracted important certifications. GK/Retail has been tested by SAP and the current version 12 has been awarded the following certification: "Integration with SAP Applications" and "Powered by SAP NetWeaver." The certification process for the Retail Integration Framework has been completed with IBM and certification has been issued for GK/Retail. This means that both IBM and SAP have confirmed that GK/Retail can be seamlessly used in conjunction with their software solutions.

Services

GK SOFTWARE AG not only provides products, but also extensive services. For example, they include analysis and advisory services when implementing new store solutions or adapting solutions that have already been introduced to the expanded demands of customers, like the integration of new bonus systems in till systems. The company also assumes responsibility for producing the documentation within projects and training people to handle the software products and providing the relevant project management services.

Another major feature includes the provision of maintenance and support services, the rollout and having engineers on standby.

Sustainability

GK SOFTWARE launched its "Green Store Initiative" at the end of 2009; its aim is to reduce energy consumption in retail stores in the long term. This should provide retailers with an opportunity of using natural resources in a responsible way and at the same time tapping into potential to make savings. The solutions provided by GK SOFTWARE are geared for particularly efficient and energy-saving behavior without neglecting the security requirements of critical business systems in the retail sector.

Research and Development

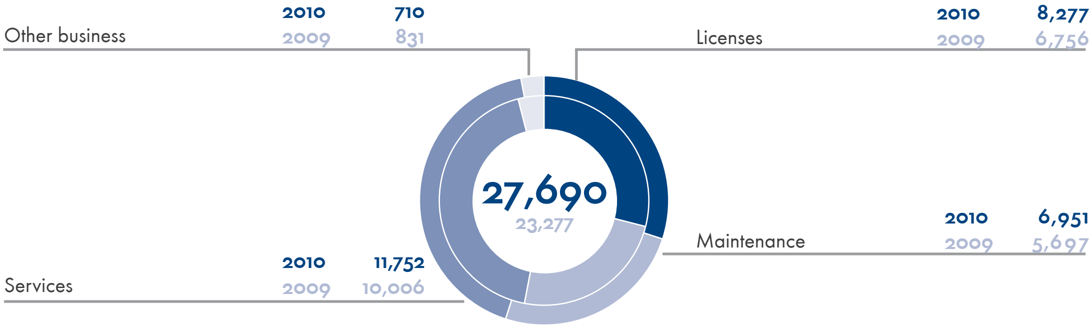
- Research and development as a strategic factor in the face of competitors
- Constant expansion of investments in F&E guarantees the company's position as a leading innovator
- Developing new software solutions as part of a partnership relationship with SAP

The ongoing developing of existing products and the development of new software solutions have been the corporate group´s major focus during the past few fiscal years and they will continue to be a strategic competitive factor in the future too. This is reflected in the continuing growth in the number of employees in this department. The main part of the research and development department is based at the EUROSOFTWARE s.r.o. subsidiary in Plzen. Here, 17 software developers alone are working to exclusively grapple with the latest trends in the software market in order to develop new, ground-breaking products from these. Other impulses for research work come from company managers, sales & marketing, partners and directly from GK SOFTWARE AG's customers. The onward development of the StoreWeaver Enterprise Edition in particular was a major focus for development work during fiscal 2010. The emphasis was particularly on the expansion of the mobile merchandise management components in stores. Work also concentrated on developing the new Open Scale software at the end of the year.

Other top priorities during fiscal 2010 involved the development of the new GUIs for all the software solutions and the development of a

Ronald Scholz, COO

Development of sales distribution
between 2009 and 2010 in tEUR



prototype for mobile solutions – e.g. for iPads and iPhones.

Research costs amounting to EUR 157,000 (EUR 222,000 in the previous year) were entered immediately as expenditure during fiscal 2010. The capitalized development costs amounted to EUR 649,000 in 2010 (EUR 1,067,000 in the previous year). Important merchandise management solutions for stores were also developed on behalf of GK SOFTWARE AG – e.g. the automatic label printing solution.

Customers and projects

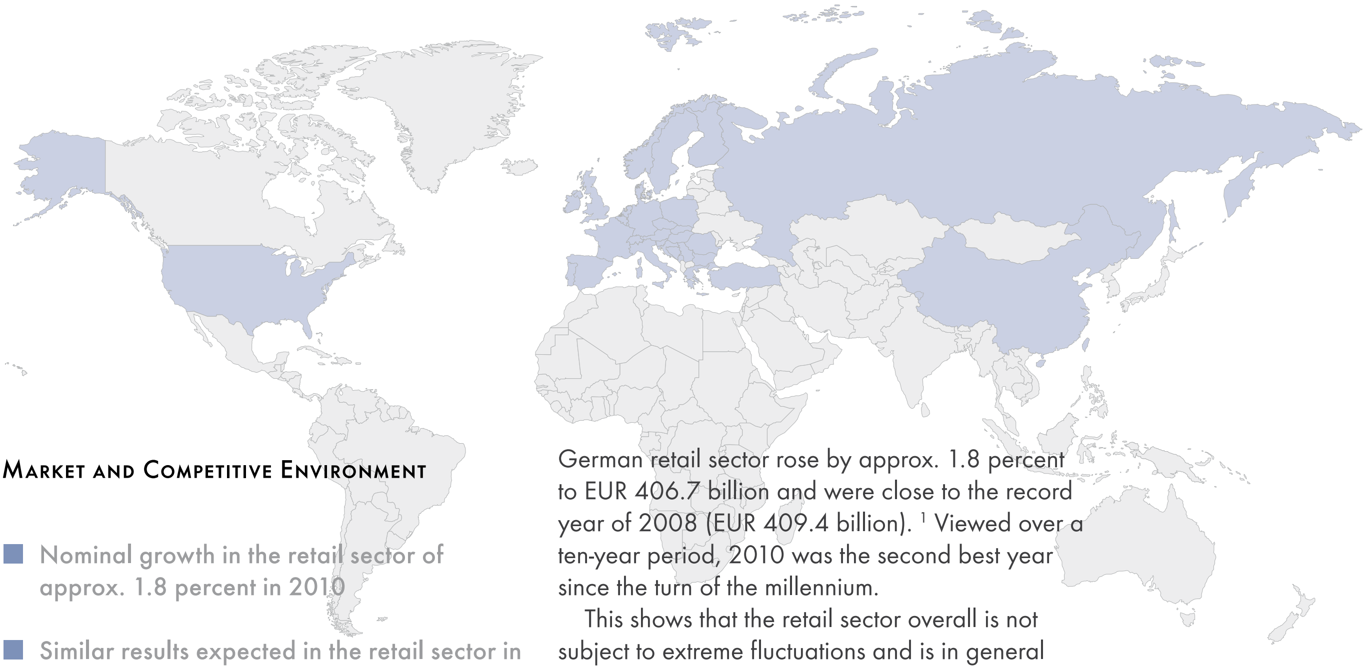
- Expanding market share in the food discount sector as a result of new projects
- Joint major project with SAP at EDEKA
- First pilot project in Russia with the largest Russian retailer, the X5 Retail Group

Most of GK SOFTWARE's customers continue to come from the retail sector. The market sectors where the company is active are primarily the food retail sector, drugstores & household goods, fashion & lifestyle or technology & cars. The company provides pre-configured solutions for cash & carry, department stores, discount/food stores, specialist retails and cell phone shops, which are customized to meet the needs of these segments. The products and services are geared for corporations of various sizes.

Important new projects in 2010 – a summary:

- Hornbach Baumarkt AG (more than 130 large-scale markets in nine countries)
- X5 Retail Group (equipping more than 1,000 stores in Russia)
- EDEKA Rhein-Ruhr (more than 550 stores in the west of Germany)
- Ludwig Beck (runs one of the most important department stores in Germany and other stores)
- MPREIS (180 design-oriented supermarkets in Austria and Italy)
- BAGUETTE Bistro-Betriebs GmbH (140 bakeries/cafés in Austria and Italy)
- Unicare Pharmacy (more than 70 drugstores in Ireland)
- Christ Juweliere und Uhrmacher seit 1863 GmbH (more than 200 stores in Germany)

All the projects are running according to schedule or are already being rolled out.



Market and Competitive Environment

- Nominal growth in the retail sector of approx. 1.8 percent in 2010
- Similar results expected in the retail sector in 2011 as in the previous year
- Definite forecast for the course of business in 2011 not yet possible

Business developments at GK SOFTWARE AG are largely determined by two major factors. Firstly, the general underlying economic conditions and the way that they are expected to develop affect actual economic developments, while expectations determine consumer behavior and therefore the business prospects of the retail sector. Secondly, the retail sector faces challenges, to which it has to respond, regardless of short-term economic fluctuations (demography, customer loyalty, internationalization, to name just a few) and for which GK SOFTWARE has some of the answers.

A clear statement can be made with regard to the overall economic situation: After a difficult year in 2009 with declines in sales, 2010 provided clear signs of a recovery. Total sales in the German retail sector rose by approx. 1.8 percent to EUR 406.7 billion and were close to the record year of 2008 (EUR 409.4 billion). [1] Viewed over a ten-year period, 2010 was the second best year since the turn of the millennium.

This shows that the retail sector overall is not subject to extreme fluctuations and is in general terms a very stable segment of the economy. A detailed study naturally will reveal internal differences. The food retail sector is normally the most constant, while others are more dependent on the general economic situation. So the sectors that grew in 2010 were primarily those where consumers had shown restraint during the financial crisis. They included watches/jewelry (+12.6 percent), cosmetics/personal hygiene (+7.5 percent) or shoes (+6.5 percent) and clothing (+4.7 percent). The food, beverage and tobacco sector, on the other hand, remained very stable with growth of 0.7 percent.[2]

The HDE, the German Retail Federation, is anticipating a moderate continuation of the upward trend during the current year and growth

1 http://www.einzelhandel.de/pb/site/hde/node/1331147/Lde/index.html

2 Ibid., charts for the HDE annual press conference on 31 January 2011.

Growth of German retail
between 2000 and 2010 in Billion EUR
(Source: Destatis; HDE-Berechnungen; Bruttoumsätze; neue Methodik und Stichprobe Aug 2010)

of 1.5 percent. But rising consumer prices and the growing costs for consumers, e.g. for energy or health insurance schemes, could curb this process. Similar overall positive trends are also visible in Switzerland and Austria.

There are still no reliable estimates on the negative effects of the disaster in Japan for the global economy in the medium and long term. The strong movements on the world's stock exchanges already show that this event could have global significance for the economy.

So far, the mood in the German retail sector has been highly positive with regard to expectations for 2011. The retailers' survey "HandleSkix" revealed that more than half the retailers were expecting a significant improvement in sales, while almost one third assume that sales will remain constant.[1]

These forecasts are also supported by other studies, which also reveal that the trade is thinking about responding to strategic issues with IT solutions: The new study published by the EHI Retail Institute entitled "IT Trends in the Retail Sector in 2011" assumes that IT budgets at retail corporations will rise in the next three years because of the improvements in the overall situation.[2] More than half the IT managers questioned by the EHI expect to invest more in IT in the future. Based on this, the EHI has calculated that approx. EUR 5.3 billion will flow into IT budgets in the D-A-CH region. IT expenditure lies between 0.3 and 3.5 percent with an average share of sales of 1.12 percent, although the so-called FMCG (fast moving consumer goods) retailers normally have higher budgets available. Projects to renew store software – particularly the till software – will account for a significant share of expenditure. 29 percent of all the retailers questioned plan to invest in new software for their POS installations. Managers are also looking at issues like merchandise management, multi-channel marketing, customer loyalty and mobile marketing.[3]

This relates to the age of the systems being used. The 2010 Till Study published by the EuroHandelsInstitute showed that although the average age of store software is 5.8 years, 20

1 http://de.statista.com/statistik/daten/studie/171862/umfrage/erwartete-umsatzentwicklung-der-unternehmen-im-einzelhandel-%28januar-2011%29/

2 EHI Retail Institute, IT-Trends im Handel 2011, Cologne 2011.

3 EHI Retail Institute, IT-Trends im Handel 2011, Cologne 2011, p. 18.

André Hergert, CFO

percent of retailers were still using software that was more than ten years old.[1]

These overall positive forecasts, however, do not permit any reliable projections for the year 2011. The effects of the disaster in Japan, the consequences of which cannot fully be forecast, are still very uncertain with regard to the global economy, because it is hard to determine the magnitude of the catastrophe. This sense of uncertainty is complemented by the political unrest in the Arab world, which has even led to war-like action in the case of Libya, and the subsequent questions about how secure supplies of oil really are. Depending on how these crises develop and if it is possible to restrict them to their own region, the economic recovery in Germany and Europe may not be affected, or only to a minor degree. IT budgets within the retail sector normally also benefit from any general upturn and a pick-up in the retail sector. These would be positive signals for the ongoing development of business at GK SOFTWARE, not just in the D-A-CH area, but also in other markets being processed, like the UK, USA or Russia.

This would provide the conditions for reducing the ongoing backlog in investments in the retail sector, which has existed for some time. The current high number of new bids for tenders, which goes beyond those of the past few years, is a pointer in this direction. GK SOFTWARE therefore continues to assume that the short and medium-term investments required in new systems will continue to provide it with future sales potential in Germany and the other markets actively being processed.

By expanding its sales activities to the USA, Great Britain and Russia and as a result of additional enquiries from markets that are not actively being processed, the company has continued to increase its sales potential during the last two years. To the degree that the global economy recovers, foreign retailers, some of which have been more affected by the financial market

1 EHI Retail Institute, Kassensysteme 2010, Cologne 2010, p. 20.

tEUR	2010		2009		Change	
Sales with						
GK/Retail	24,380	88.0%	21,372	91.8%	3,008	14.1%
SQRS	3,310	12.0%	1,905	8.2%	1,405	73.8%
Total	**27,690**	**100.0%**	23,277	**100.0%**	**4,413**	**19.0%**
Licences						
of which	8,277	29.9%	6,756	29.0%	1,521	22.5%
GK/Retail	7,981	28.8%	6,598	28.3%	1,383	21.0%
SQRS	296	1.1%	158	0.7%	138	87.3%
Maintenance						
of which	6,951	25.1%	5,697	24.5%	1,254	22.0%
GK/Retail	5,461	19.7%	4,839	20.8%	622	12.9%
SQRS	1,490	5.4%	858	3.7%	632	73.7%
Services						
of which	11,752	42.4%	10,006	43.0%	1,746	17.4%
GK/Retail	10,335	37.3%	9,196	39.5%	1,139	12.4%
SQRS	1,417	5.1%	810	3.5%	607	74.9%
Other business						
of which	710	2.6%	831	3.6%	−121	−14.6%
GK/Retail	603	2.2%	752	3.2%	−149	−19.8%
SQRS	107	0.4%	79	0.3%	28	35.4%

crisis, will increasingly invest in their IT systems again

GK SOFTWARE is currently in a good position in several ongoing bids for tenders in Germany and abroad and has significant advantages over its rivals because of its broad product portfolio, the internationality of its software solutions and its proven ability to implement projects quickly.

Explanation of the Business Results and an Analysis of the Assets, Financial and Earnings Situation

2010 has once again been a very successful business year for GK SOFTWARE. Sales rose by almost one fifth over the previous year's figure from EUR 23.28 million to EUR 27.69 million. At the same time, the level of profitability largely matched that of the last five years: Earnings before interest and tax (EBIT) were EUR 6.43 million, 31.6 percent above the previous year's figure of EUR 4.89 million. The EBIT margin on sales was 23.2 percent, following a figure of 21.0 percent in the previous year. As a result, this figure was above the upper end of forecasts.

The reason for this significant improvement in sales and revenues was the broad customer base, which led to important new projects. At the same time, existing customer relations were intensified and expanded and this resulted in several subsequent orders for major projects, which had already been completed.

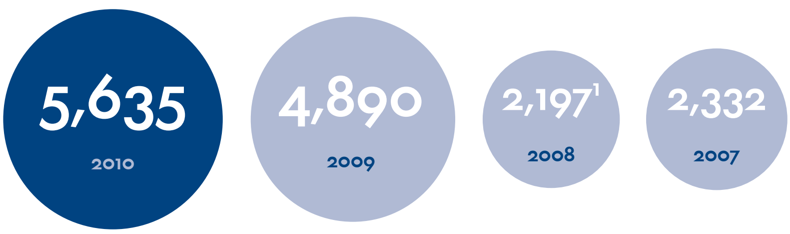
The development of sales from the "SQRS" software, which is being continued as existing business out of a sense of obligation towards customers, also provided gratifying results. Sales here with third parties amounted to EUR 3.31 million during the year under review. This is an increase of 73.8 percent compared to the figure for the previous year, which only covered the months from May to December, however.

Earnings Situation

- The most successful year: sales of EUR 27.7 million; Group profits of approx. EUR 4.47 million
- Significant ongoing growth in 2010: sales increase of 19 percent
- EBIT margin on sales of 23.2 percent

Sales within the Group rose from EUR 23.28 million to EUR 27.69 million during the year under review – i.e. by 19.0 percent. Business at GK SOFTWARE AG accounted for EUR 24.38 million of this figure, which represents an increase of EUR 3.01 million or 14.1 percent, and EUR 3.31 million from the existing business of Solquest

Development of the EBIT
between 2007 and 2010 in tEUR



1 Inclusive of costs of equity capital.

(SQRS), which accounted for a share of 12.0 percent of the Group's total sales.

If we break down the sales according to the various types of services, the lion's share of sales continues to come from services connected to the introduction (customizing) and adaptation (change requests) of software solutions. These services (EUR 11.75 million) accounted for 42.4 percent of total sales, while the share of total sales from SQRS amounted to 5.1 percent.

The sales from licenses at EUR 8.28 million now account for 29.9 percent of total sales and therefore exceed the license revenues from 2009 by more than one fifth – this represents a figure of EUR 1.52 million. As the decision not to continue selling the SQRS business – alongside GK/Retail – still applies, the contribution made by this business area is low and is related to re-licensing arrangements for existing customers.

In line with expectations, the trend that involves maintenance sales capturing an increasing share of total sales continued. The share of sales amounted to 25.1 percent (EUR 6.95 million) following a figure of 24.5 percent in the previous year. The share maintained by the SQRS business in the total maintenance revenues was 21.4 percent, almost twice as high as the share of this business area in the total business.

Other sales revenues, which largely result from the purchase of hardware on behalf of customers, accounted for only a share of 2.6 percent of total sales in the year under review, following a figure of 3.5 percent in the previous year.

If we look at the development of the total operating performance, the growth rate was 22.3 percent, rising from EUR 24.30 million to EUR 29.71 million.

tEUR	2010		2009		Change
Sales revenues	27,690	93.2%	23,277	95.8%	+19.0%
Changes in stock of unfinished goods	0	–	−873	−3.6%	–
Own work capitalized	648	2.2%	1,067	4.4%	−39.2%
Operating revenues	**28,338**	**95.4%**	**23,471**	**96.6%**	**+20.7%**
Other operating revenues	1,368	4.6%	826	3.4%	65.6%
Total operating revenues	**29,706**	**100.00%**	**24,297**	**100.0%**	**+22.3%**

Own work capitalized, which mainly concerns the ongoing development of the GK/Retail software, reached its high point in 2009 (EUR 1.07 million) and fell back to EUR 0.65 million.

The renewed expansion of goods and services and a glance at the requirements in the future has caused the Management Board to expand the development and project handling capacity within the Group and hire new qualified employees. As a result, expenditure on human resources rose from EUR 12.12 million to EUR 14.84 million. This corresponds to an expenditure ratio on human resources of 53.6 percent related to sales, following a figure of 52.1 percent in the previous year. This was due to expenditure in the EDEKA-LUNAR project.

Depreciation/amortization amounted to EUR 1.55 million, following a figure of EUR 1.28 million in the previous year. The increase of EUR 0.27 million was due to the scheduled increase in the need for amortization of own work capitalized (increased by EUR 0.11 million), licenses that were purchased (EUR 0.04 million) and property, plant and equipment (EUR 0.05 million). The amortization of acquired customer relations involved write-downs of EUR 0.19 million during the business year, following a figure of EUR 0.12 in the previous year.

Other operating expenditure amounted to EUR 5.34 million during the year under review, following a figure of EUR 5.45 million in the previous year and remained more or less constant.

On the revenue side, the Group recorded earnings before interest and tax (EBIT) of EUR 6.43 million during 2010. This represented a 31.6 percent increase (or by EUR 1.54 million) over the previous year's figure.

The financial results in 2010 were EUR −0.13 million (EUR 0.14 million in the previous year). Interest yields amounting to EUR 0.18 million were offset by interest expenditure amounting to EUR 0.31 million. This was particularly the result of real estate funding and funds to acquire the operating business of Solquest GmbH.

The earnings before tax (EBT) increased from EUR 5.03 million to EUR 6.31 million or by 25.4 percent over the figures for the previous year. After tax, the Group profits amounted to EUR 4.47 million, following a figure of EUR 3.52 million in the previous year, which represents an increase of 27.0 percent.

Based on the 1,790,000 shares in circulation on the reporting date, this represents earnings per share of EUR 2.50 (EUR 1.96 per share in the previous year, based on the number of shares in circulation on 31 December 2010).

Assets Situation

The consolidated balance sheet total increased from EUR 32.37 million (31 December 2009) to EUR 44.81 million on the reporting date of 31 December 2010. The causes for this increase of EUR 12.44 million can be found in the rise of current assets without cash and cash equivalents (by EUR 9.06 million), while the non-current assets only increased by EUR 0.56 million. The relevant changes on the funding side consist of an increase in equity by EUR 9.03 million, non-current assets by EUR 0.24 million and current liabilities by EUR 3.16 million.

The amount of cash and cash equivalents available (EUR 13.44 million) exceeded the liabilities encumbered with interest payments (EUR 5.98 million) by EUR 7.46 million.

The reason for the increase in current assets is the rise in trade accounts receivable from EUR 4.47 million to EUR 9.12 million on the balance sheet reporting date. The accounts receivable, which caused this strong increase, had been paid by the time these consolidated accounts were prepared. The accounts receivable from ongoing works also rose by EUR 3.61 million compared to the same time in the previous year. The non-current assets only changed to a major degree for two items: While the assets in buildings fell from EUR 0.79 million to zero, the real estate and buildings assets rose by EUR 1.30 million from EUR 2.15 million to EUR 3.45 million. Both changes can be explained by the building of the extension at the headquarters of GK SOFTWARE AG in Schöneck. These changes in the other assets are due to the scheduled investments to equip workstations in the building and for new members of staff. The reduction in intangible assets in the form of customer relations (by EUR 0.19 million) was due to their scheduled amortization. The stocks of own work capitalized for software developments also fell, because the current capitalization remained behind the scheduled amortization.

Cash and cash equivalents rose from EUR 10.64 on the reporting date in the previous year to EUR 13.44 million at the end of 2010. The maintenance of liquidity is a high priority for the Management Board in order to be able to maintain the ability of GK SOFTWARE and other consolidated companies to operate if surprises occur and in the face of possible crises.

While the increase in the balance sheet equity by EUR 9.03 million was due to the increase in capital carried out at the end of the year by issuing 125,000 new shares entitled to share in profits, the dividend payment of EUR 1.67 million following the 2010 annual shareholders' meeting and the

tEUR	2010		2009		Change
Non-current assets	13,695	30.6%	13,133	40.5%	+4.3%
Current assets or cash and cash equivalents	17,668	39.4%	8,605	26.6%	+105.3%
Cash and cash equivalents	13,442	30.0%	10,637	32.9%	+26.4%
Assets	**44,805**	**100.0%**	**32,375**	**100.0%**	**+38.4%**
Equity	24,332	54.3%	15,300	47.2%	+59.0%
Non-current liabilities	7,541	16.8%	7,304	22.6%	+3.2%
Current liabilities	12,932	28.9%	9,771	30.2%	+32.4%
Liabilities	**44,805**	**100.0%**	**32,375**	**100.0%**	**+38.4%**

operating successes of the business year, the increase in non-current liabilities amounting to EUR 0.24 million was largely due to the increase in pensions provisions (increased by EUR 0.29 million) and the deferred subsidies from the public sector (an increase by EUR 0.35 million). Deferred tax assets and liabilities also rose by EUR 0.34 million. On the other hand, it was possible to reduce non-current liabilities to banks by EUR 0.74 million as a result of scheduled repayments. These liabilities have been used to fund the extension of the office buildings in Schöneck and acquire the assets of Solquest GmbH, as carried out in the previous year.

Current liabilities rose by EUR 3.16 million. The major changes took place with regard to advance payments received, which were higher to the tune of EUR 4.25 million than in the previous year. Other liabilities also rose by EUR 0.17 million. Current liabilities also include liabilities towards employees (EUR 1.38 million), from taxes (EUR 1.90 million – largely sales and income tax) and cost accruals and deferrals (EUR 0.84 million) for outstanding incoming invoices.

While the current bank liabilities remained constant, because they represent the part of the investment loans due for repayment within a year, liabilties from income taxes fell by EUR 0.74 million, which was due to the payment of the tax debt from the 2009 tax statements. It was also possible to reduce the liabilities from trade accounts payable by EUR 0.30 million and the current provisions by EUR 0.22 million.

Financial Situation

The cash flow from operating business in the narrower sense (i.e. without the change to the net current assets) rose from EUR 6.23 million in the previous year to EUR 7.99 million. This increase of more than 28% was due to the expansion of business operations. If we include the effects of the changes to the net current assets related to the reporting date, we can see that it was not possible to balance the major increase in accounts receivable and other assets by EUR 8.46 million through the relief provided by the rise in advance payments received (EUR 4.25 million). The increase in trade accounts receivable at the end of the year was unusually high; the accounts receivable that caused this increase have already been settled.

The inflow of cash and cash equivalents from operating business amounted to just EUR 4.69 million, following a figure of EUR 6.05 million in the previous year.

The net inflow of cash and cash equivalents from operating business still amounted to EUR 1.67 million because of the income tax paid (EUR −2.76 million) in the year under review (following a figure of EUR 0.42 million in the previous year).

The cash flow from investment business amounted to EUR −2.71 million on account of subsidies from the public sector in the year under review following an outflow of EUR −9.36 million in the previous year – which included the purchase of the operating business of Solquest GmbH.

The cash flow from funding activities at EUR 3.84 million was just as positive as in the previous year because of the capital increase introduced in December; the funding activities led to an inflow of cash and cash equivalents through the take-up of an investment loan of EUR 5.47 million. The capital increase led to a gross inflow of funds of EUR 6.25 million for the Group.

Overall, the Group had an inflow of EUR 2.80 million from business operations during the year under review. The comparative figure for the previous year was EUR 1.77 million.

Report on Key Events after the Balance Sheet Date

GK SOFTWARE was able to announce a major order from a leading international sports articles manufacturer based in Herzogenaurach in February 2011. It has asked the company to equip more than 2,000 of the corporation's stores around the globe with GK/Retail.

Report on Risks and Prospects at GK SOFTWARE

Risks

GK SOFTWARE deliberately takes entrepreneurial risks in order to be able to benefit from the opportunities presented by the market. In order to recognize, manage and minimize risks at an early stage, a risk management system have already been put in place. Among other things, the Management Board meets once month in order to identify possible risks and introduce counter-measures. The Supervisory Board is informed of the results of these discussions. On an operating basis, the relevant project managers provide information to the appropriate member of the Management Board about possible risks during the course of current projects. GK SOFTWARE AG believes that the degree of customer satisfaction and the number of new customer contacts are important indicators for assessing risks. So both these factors are subject to particular monitoring and are regularly checked as part of sales controls. The risk management manual is being continually updated. Progress is continuing on the production of a risk management manual.

The development of the general economy and consumer sentiments are extremely important for the business development of the Group's customers. In contrast to the previous year, 2010 was and 2011 is generally being viewed in a positive light due to the gratifying recovery after the declines suffered in 2009. But this year has already been dominated by the uncertain consequences of the earthquake disaster in Japan and the general political unrest in the Arab world. It is not yet clear what effect these two events will have on economic developments in Europe.

The forecasts of associations and analysts indicate that the retail sector will once again develop in a relatively calm way in the significantly calmer overall economic climate; but the psychological effect of any contradictory news in an environment, which is difficult to predict, and its effects on the investment behavior of customers of GK SOFTWARE is hard to forecast – as was true last year.

In the light of this general uncertainty, the Management Board continues to make every effort to provide itself with room to maneuver by keeping costs as flexible as possible and only deliberately incurring them if they are necessary.

On the basis of its customer structure and the structure of its target market, the consolidated group business is repeatedly dominated by individual major projects with a relatively low number of customers, so that these business relations provide significant contributions to sales and results within a fiscal year. The Management Board assumes that this will continue to be the case in the future too. If a business partner breaks off a project or falls into payment difficulties, this could have financial consequences for GK SOFTWARE. However, this risk is restricted by regular payment plans or agreemants for payments according to what are known as project milestones.

The ongoing consolidation of the retail sector market may lead to a reduction in the number of store networks in the short term, so that demand from the retail sector could rise. The retail sector in Germany is generally dominated by price wars. Retail companies therefore seek to pass on the resulting pressure on prices to their suppliers and contractual partners. This process is also felt for investments in IT equipment and may have an effect on producers of retail sector software. As GK SOFTWARE AG, however, provides solutions for a highly central function within retail sector groups, these risks are not classified as a threat to the company's existence.

The planned expansion is also associated with certain financial risks. These mainly arise from preliminary payments made to acquire customers – by consolidated companies. In the course of any further expansion, the project business will have to be increasingly scaled and this should take place using partners. However, there are other risks when working with partners – not every process can be precisely controlled.

GK SOFTWARE AG does not rule out a situation where it partly acquires its products and sales base by deliberate acquisitions in order to complete the planned expansion of its business operations in the next few years. The consolidated group will exercise the maximum possible degree of prudence when preparing for and checking acquisitions. But it is impossible to completely eliminate the risk that an acquisition may have negative effects on the results at GK SOFTWARE.

To ensure further growth, the companies also need to attract additional highly qualified employees and we cannot rule out the possibility that members of staff in key positions will leave the consolidated companies. So it will be an ongoing challenge for the consolidated group to commit current staff to the firm and at the same time attract new, motivated specialists. GK SOFTWARE is making every effort to be an interesting employer for its existing employees by providing a combination of interesting tasks, international fields of operations with its innovative products and becoming one for the labor market. The IPO and the company's reputation as an innovative IT corporation have increased the attractiveness of the group for the labor market.This attractiveness, which is already a fact, was increased even further by the establishment of a share option program for managers and leading employees in the Group; this was completed in the year under review.

Against the backdrop that the group is managing its capital – which includes both equity and all accounts receivable and payable – with the aim of guaranteeing that the group will be able to service its loans and debts at all times and provide adequate liquidity to secure investment projects and is attaching the greatest importance to maintaining capital, it is important to name the following further risks to business developments.

The financial risks not only involve loan default risks, but also liquidity and market risks. The maximum loan default risk corresponds to the carrying amount of the financial assets. However, the Management Board does not expect any loan defaults, which are not covered by the (slight) write-downs entered in the accounts, on account of its experience and ongoing contacts with debtors (our customers). In the light of the group's liquidity situation with a large surplus of cash and cash equivalents over and above liabilities with banks and other interest-bearing liabilities, the Management Board has not identified any liquidity risks. The following can be said with regard to identifiable market risks like currency or interest risks: The group only has foreign currency accounts receivable and payable to a very small degree in Czech crowns. They are listed in sections 3.3., 3.6., 3.14. and 3.17.. Because of the low level of exposure, no currency risks need to be reported.

As far as interest risks are concerned, it must be said that all the financing instruments are all current, with the exception of the loans that have been taken out. So no interest risks need to be reported. The investment loans taken out before 1 January 2009 are guaranteed by means of hedging through interest rate capping tools to guarantee the interest conditions that have been agreed to. No guarantee of interest levels has been secured for the loans taken out during the course of fiscal 2009 because of the current capital market situation. However, the company will continue to monitor the situation and, if necessary, will adopt measures. In the light of this, the Management Board has not identified any interest risks that need to be reported. There are no other risk categories – because of the type of financial instruments used. An estimate of the risks has been made in the notes on the consolidated accounts in section 7.1.

In addition to the risks already mentioned, there are other factors, which could also affect the sales and revenue situation. They include, for example, risks from current projects or warranty claims.

There was no risk at the end of 2010, which might prove to be a threat to the very existence of GK SOFTWARE AG.

Opportunities

There are growth opportunities for the consolidated group both in Germany and abroad. The issues targeted by the products of GK SOFTWARE AG are key strategic IT projects that are high on the list of priorities at many retail companies. In order to be a success in the international market place, the consolidated group is well placed with plenty of good references from the German retail sector and a technically well-developed product. GK SOFTWARE AG products are already well represented on the international market and are being used at more than 83,000 POS units (an increase of 14% over the previous year) in 19,500 stores in 31 countries.
GK SOFTWARE AG also has several major partners with excellent networks in the retail sector. This should make it easier to gain access to new customers in international markets like the USA or Asia. The consolidated group can make use of the experience that it has gained with its German customers, as the solutions have already been successfully introduced in 31 countries and therefore can be quickly transferred to foreign customers.

The growth prospects in Germany have not yet been exhausted either by a long way. The focus of GK SOFTWARE AG will be on new areas in the future. They include, for example, fast food chains, which would significantly increase the target group of potential customers. Fairly small and medium-sized chains of stores, which have not been a prime target in the past, provide further huge potential, particularly if standardized solutions are sold. Integrated and automated processes for optimizing inventories, managing them and efficient customer management systems can help reduce warehouse costs and increase customer loyalty. As a result, the retail trade will almost certainly invest in solutions that integrate all the business processes. Without standardization and simplification of the processes, retail companies' margins will come under pressure as well. Homogenized till systems and centralized data flows will therefore be very important to retailers in the future. GK SOFTWARE AG can clearly benefit from this investment behavior in the retail sector.

The consolidation process in the software industry with sector solutions for the retail trade has already started. GK SOFTWARE AG wants to play an active role in this process with its attractive range of products and solid financial backing.

Internal Checking and Risk Management Systems with Regard to the Accounting Process

The tools contained in an internal checking system and risk management with regard to accounting pursue the goals of maintaining assets and recognizing risks in economic developments within society and the consolidated group in good time. The internal checking system for the accounts is particularly focused on ensuring compliance with the relevant rules in accounting.

The internal checking system is being continually developed and monitored by the Supervisory Board. The Management Board dictates the design and scope of the requirements placed on the internal checking system. But it should be noted that no internal checking system can provide absolute certainty – regardless of its scope and type – but it must be designed in such a way that any major incorrect statements on the earnings, assets and financial situation at the company or the consolidated group can be prevented.

This task is the responsibility of the finance department at GK SOFTWARE AG, which is constantly developing the existing tools taking into account the development of the company's and consolidated group´s business operations and the law and accounting standards. The tools cover general instructions and individual rules, which are designed to guarantee that accounting processes are handled properly. The members of staff in the finance department are being continually trained on how to comply with internal rules and legal stipulations.

Compliance with instructions and individual rules is supported by unified notification processes and IT-supported reporting procedures and the ongoing further integration of accounting processes in unified IT systems. Defined, internal checks are embedded in the accounting process and they include measures like manual balancing, separating functions and the principle that four eyes are better than two.

Outlook

The Management Board believes that fiscal 2011 will develop in such a way that the financial and earnings situation within the Group will continue to improve through renewed growth in sales; and the Board does not expect any developments that might pose a threat to the company's existence from the financial situation. But this estimate is subject to the effect of known and unknown factors, which the Group is unable to influence.

The developments experienced during the last few years have reinforced the belief within the Group that the strategy being pursued is producing good results. We therefore intend to continue to internationalize the company's business and achieve significant shares of sales with corporations that have their headquarters outside Germany. The company will also continue to achieve a deeper penetration of the German domestic market by expanding into other retail segments not served in the past and by deepening our business relations in segments, where we already have a presence.

If we follow the estimates about developments in the economy in general and the retail sector, an expansion of sales of more than ten percent is probable. The Management Board assumes that the company will be able to maintain its level of profitability between 18 and 20 percent.

If developments are particularly positive, the Management Board expects growth in sales in the GK/Retail business to possibly reach 15%. We do not expect any growth in the business with SQRS but consistency. We are therefore expecting sales of roughly between EUR 30.5 and 31.5 million in 2011. This growth should continue to be achieved with the same levels of profitability as in previous years, with an approximate EBIT margin of 18.5 percent related to sales. But developments could be negatively affected if the events in Japan and the Arab region put a damper on the overall state of the world economy. If some overall disruption takes place in the global economy, it is possible that the clear readiness to invest on the part of the retail sector will be curbed again and this could

Other Information According to Section 315 of the German Commercial Code

have negative effects on the results at GK SOFTWARE. But there are no clear signs in the German and European developments at the moment, which would suggest that there will be any deviation from the growth course at GK SOFTWARE. As a result, we are continuing to anticipate double-digit growth in sales for the GK/Retail business in 2012, while the SQRS business within the Group continues to remain at the current level of sales. There could be significant declines in this business field in 2012 for the first time to the benefit of the GK/Retail business. We expect profitability to be maintained at current levels. On the basis of this development, we do not expect any erosion of the good financial situation that the company currently enjoys.

Principles of the Company's Remuneration System

The members of the Management Board not only receive a fixed salary, but also a component that is dependent on results and they are coupled to qualitative targets and mainly relates to the development of the company. These qualitative goals are set by the Supervisory Board for the members of the Management Board every year. The following applies to the complete Management Board – if the targets that are set are fully met, their total earnings are divided up into a 70% share for the fixed part and a 30% share for variable earnings.

In a departure from these general principles, the company's gross earnings are used as the basis for commission payments for the COO, where the gross earnings are defined as the surplus funds from project sales above project-related costs. The COO also receives an annual profit-sharing bonus depending on the annual net income generated by GK SOFTWARE AG. The company has also made pension commitments to two members of the Management Board.

The members of the Supervisory Board receive a fixed annual payment according to the articles of incorporation. There is no provision for any performance-related remuneration.

Information according to Section 315 Paragraph 4 of the German Commercial Code

1. **Capital ratios**. The equity capital at GK SOFTWARE amounted to TEUR 1,790 on 31 December 2010 and is divided up into 1,790,000 individual share certificates. Each individual share certificate represents one vote according to Section 4 of the articles of incorporation.
2. **Restrictions that affect voting rights or the transfer of shares.** What is known as a "soft lockup" existed for Mr. Rainer Gläß, Mr. Stephan Kronmüller and GK Software Holding GmbH, according to which they may only sell shares with the agreement of ICF

Wertpapierhandelsbank AG. This agreement ended on 17 June 2010.

3. **Shareholders' rights and obligations**. The same rights and obligations are linked to each share. Shareholders are entitled to asset and administrative rights. The asset rights include the right to share in the profits and the buying option to purchase shares in any increase in capital stock. The shareholders' participation in the company's profits is also defined by their share in the equity capital. Their administrative rights include the right to take part in the company's annual shareholders' meeting, speak there and ask questions or make applications and exercise voting rights.
4. **Equity shareholdings**. The following direct or indirect shareholdings that exceed 10% were known on the reporting date:
   a. Mr. Rainer Gläß directly or indirectly has 521,142 shares, of which 468,350 shares are indirectly held through GK Software Holding GmbH.
   b. Mr. Stephan Kronmüller directly or indirectly has 505,850 shares, of which 468,350 shares are indirectly held through GK Software Holding GmbH.
   c. GK Software Holding GmbH directly has 936,700 shares. Mr. Rainer Gläß and Mr. Stephan Kronmüller each own half of this company.
5. **Appointments to the Management Board or amending the articles of incorporation**. Appointing or dismissing members of the Management Board are issues that are governed by Sections 84 and 85 of the German Stock Companies Act. Members of the Management Board are appointed by the Supervisory Board for a maximum period of five years and an extension of their time in office is permissible for a maximum period of five years each time. According to the articles of incorporation, the number of members of the Management Board is determined by the Supervisory Board, but the Management Board must consist of at least two persons. The Management Board at GK SOFTWARE AG currently has four members.
   The articles of incorporation can only be amended by the annual shareholders' meeting according to the rules of the German Stock Companies Act. The Supervisory Board may decide on the version of the articles of incorporation – i.e. only make grammatical amendments to the articles of incorporation. Any decisions taken by the annual shareholder's meeting only require a simple majority of votes cast, if the law does not specify anything different
6. The Management Board's powers to issue and repurchase shares.
   Contingency capital. According to Section 4a of the articles of incorporation, the Management Board is entitled to grant purchase options on up to 37,000 individual share certificates to members of the Management Board, company managers, where GK SOFTWARE AG already has a direct or indirect shareholding ("associated companies"), and managers at the company and their associated companies on one or more occasions until 14 May 2013, provided that the Supervisory Board approves of these measures. A share option program came into force in 2010. 12,300 share options in all were offered to company employees, but they cannot be exercised until 30 June 2012 once various conditions have been met. Each of the options gives the holder the right to trade in their option for a new no-par company share made out to the holder. The shares will be fully entitled to attract profits in the business year in which they are issued.
   Approved capital. According to Section 4b of the articles of incorporation, the Management Board is empowered until 14 May 2013 to increase the company's equity capital on one or more occasions by up to tEUR 500 – by issuing up to 500,000 individual share certificates. Purchasing rights must be granted to the shareholders; the Management Board is, however, entitled to exclude any purchasing rights for one or

several increases in capital stock as part of the approved capital in order to balance out fractional amounts, in the case of increases in capital stock against non-cash contributions, particularly when purchasing companies, if the increase in capital stock takes place through cash contributions and the proportion of the new shares issued according to Section 186 Paragraph 3 Sentence 4 of the German Stock Companies Act, which excludes any purchasing rights, does not exceed 10% of the equity capital.

Change of control clauses. The "SOFTWARE LICENSE AND RESELLER AGREEMENT" between SAP AG and GK SOFTWARE AG may be terminated by SAP AG for an important reason, if the majority of the shares in GK SOFTWARE AG are sold to someone, who is a direct competitor of SAP AG.

Schöneck, 6 April 2011

The Management Board

Rainer Gläß
(CEO)

Stephan Kronmüller
(CTO)

Ronald Scholz
(COO)

André Hergert
(CFO)


2 500
2 500
2 500

Consolidated financial statements 2010

Consolidated Balance Sheet

on 31 December 2010

Assets

EUR	Notes No.	31.12.2010 (audited)	31.12.2009 (audited)
Non-Current Assets			
Property, Plant and Equipment	2.1.; 3.1.	4,049,560.55	3,410,158.36
Intangible Assets	2.2.; 2.13.; 3.2.	9,116,134.65	9,332,576.95
Financial Assets		300.00	300.00
Active Deferred Taxes	2.11.;4.9.	528,599.94	389,714.48
Total Non-Current Assets		13,694,595.14	13,132,749.79
Current Assets			
Trade Accounts Receivable	2.3.; 3.3.	9,123,243.52	4,466,188.73
Accounts Receivable from Ongoing Work	3.4.	4,986,663.20	1,380,200.00
Accounts Receivable from Associated Companies	3.5.	0.00	11,383.50
Other Accounts Receivable and Assets	2.3.; 3.6.	3,558,185.30	2,747,257.76
Cash and Cash Equivalents	2.4.; 3.7.	13,442,168.51	10,637,185.86
Total Current Assets		31,110,260.53	19,242,215.85
Balance Sheet Total		**44,804,855.67**	**32,374,965.64**

Liabilities

EUR	Notes No.	31.12.2010 (audited)	31.12.2009 (audited)
Equity Capital	3.8.		
Subscribed Capital		1,790,000.00	1,665,000.00
Capital Reserves		13,947,106.73	7,845,779.92
Retained Earnings		31,095.02	31,095.02
Balance Sheet Profits		8,563,767.60	5,757,708.53
Total Equity Capital		24,331,969.35	15,299,583.47
Non-Current Liabilities			
Provisions for Pensions and Similar Obligations	2.6.; 3.9.	335,970.00	45,062.36
Non-Current Bank Liabilities	2.7.; 3.10.	5,242,500.00	5,983,000.00
Deferred Public Sector Subsidies	2.8.; 3.11.	1,053,528.25	707,978.74
Deferred Tax Liabilities	2.11.; 4.9.	909,461.04	567,812.07
Total Non-Current Liabilities		7,541,459.29	7,303,853.17
Current Liabilities			
Current Provisions	2.9.; 3.13.	585,223.65	801,766.60
Current Bank Liabilities	2.10.	740,500.00	740,500.00
Trade Accounts Payable	2.10.; 3.14.	476,271.33	773,950.21
Initial Payments Received	2.10.; 3.15.	6,486,525.82	2,238,527.85
Income Tax Liabilities	3.16.	528,211.87	1,272,994.04
Other Current Liabilities	2.10.; 3.17.	4,114,694.36	3,943,790.30
Total Current Liabilities		12,931,427.03	9,771,529.00
Balance Sheet Total		**44,804,855.67**	**32,374,965.64**

Consolidated Income Statement

for the fiscal year from 1 January to 31 December 2010

EUR	Notes No.	2010 (audited)	2009 (audited)
Ongoing Business Divisions			
Sales Revenues	2.12; 4.1.	27,689,567.41	23,276,625.57
Changes in Stocks of Unfinished Work		0.00	−873,452.10
Own Work Capitalized	4.2.	648,834.32	1,066,612.46
Other Operating Revenues	4.3.	1,368,069.07	826,450.46
		29,706,470.80	24,296,236.39
Materials Expenditure	4.4.	−1,540,029.30	−561,285.02
Human Resources Expenditure	4.5.	−14,839,757.45	−12,116,566.57
Depreciation and Amortization	4.6.	−1,547,870.47	−1,280,989.79
Other Operating Expenditure	4.7.	−5,344,249.10	−5,447,836.56
		−23,271,906.32	−19,406,677.94
Operating Results		6,434,564.48	4,889,558.45
Financial Income		178,242.15	259,196.04
Financial Expenses		−306,046.89	−115,813.31
Financial Results	4.8.	−127,804.74	143,382.73
Results before Income Taxes		6,306,759.74	5,032,941.18
Income Taxes	2.11.; 4.9.	−1,835,700.67	−1,515,770.92
Consolidated net income for the year/Overall result		4,471,059.07	3,517,170.26
Profits Carried Forward		4,092,708.53	2,240,538.27
Consolidated Net Profits		8,563,767.60	5,757,708.53
Non-Diluted Earnings per Share (EUR/share)[1]	4.10.	**2.68**	**2.11**
Diluted Earnings per Share (EUR/share)	4.10.	**2.68**	**2.11**

1 Based on the 1,790,000 shares that had been issued by 31 December 2010, the undiluted earnings per share amounted to EUR 2.50. It the number of shares in circulation had been the same as on 31 December 2010 in the previous year, the earnings per share would have been EUR 1.96

Consolidated Results Accounts

for the fiscal year 2010

EUR	2010 (audited)	2009 (audited)
Consolidated annual net income	4,471,059.07	3,517,170.26
Equity procurement costs	−178,125.00	0.00
Tax effect of equity procurement costs	51,887.81	0.00
Other results	−126,237.19	0.00
Total results	4,344,821.88	3,517,170.26
Allocation of total results to the owners of the parent company	**4,344,821.88**	**3,517,170.26**

Statement of Changes in Equity

on 31 December 2010

EUR	Subscribed Capital	Capital Reserves	Retained Earnings	Balance Sheet Profits	Total
Figures on 31 December 2009	1,665,000.00	7,845,779.92	31,095.02	2,240,538.27	11,782,413.21
Consolidated Net Income for the Year	0.00	0.00	0.00	3,517,170.26	3,517,170.26
Figures on 31 December 2009	**1,665,000.00**	**7,845,779.92**	**31,095.02**	**5,757,708.53**	**15,299,583.47**
Dividend Payments	0.00	0.00	0.00	−1,665,000.00	−1,665,000.00
Capital Increase	125,000.00	6,125,000.00	0.00	0.00	6,250,000.00
Stock Option Program	0.00	102,564.00	0.00	0.00	102,564.00
Offsetting Equity Procurement Costs with the Capital Reserve Less Tax Effect	0.00	−126,237.19	0.00	0.00	−126,237.19
Consolidated Net Income for the Year	0.00	0.00	0.00	4,471,059.07	4,471,059.07
Figures on 31 December 2010	**1,790,000.00**	**13,947,106.73**	**31,095.02**	**8,563,767.60**	**24,331,969.35**

Consolidated Cash Flow Statement

on 31 December 2010

Cash Flows from Operating Business

K EUR	Notes No.	31.12.2010 (audited)	31.12.2009 (audited)
Cash Flows from Operating Business			
Consolidated net profit		4,471	3,517
Correction in Tax Expenditure		52	0
Stock Option Program (non-cash expenses)		102	0
Income Taxes Affecting Results		1,836	1,516
Interest Income/Expenses Affecting Results		128	−143
Profit/Loss from the Sale or Disposal of Property, Plant and Equipment		5	−2
Reversals of Deferred Public Sector Subsidies		−65	−34
Write-Downs Recognized for Receivables		200	185
Write-Ups Recognized for Receivables		−286	−35
Amortization/Depreciation		1,548	1,281
Other Non-Cash Revenues and Expenditure		0	−58
		7,991	6,227
Changes in Net Current Assets			
Changes in Trade Accounts Receivable and Other Receivables		−8,457	−2,773
Changes in Inventories		0	738
Changes in Trade Accounts Payable and Other Liabilities		1,007	1,892
Changes in Initial Payments Received		4,248	−33
Changes in Provisions		−104	−1
Influx Provided by Operating Business		4,685	6,050
Interest Payments Received		41	151
Interest Paid		−298	−116
Income Taxes Paid		−2,760	−423
Net Flow Provided by Operating Business (Transfer)		1,668	5,662

Cash Flow provided by financing costs, credits and means of payment

K EUR	Notes No.	31.12.2010 (audited)	31.12.2009 (audited)
Transfer (Net Cash Flow Provided by Operating Business)		1,668	5,662
Cash Flow from Investment Activities			
Payments for Property, Plant and Equipment and Non-Current Assets		−2,980	−8,806
Proceeds from disposals of fixed assets		4	11
Investment Subsidies Used		411	0
Disbursed Loans		−144	−568
Net Cash Outflow for Investment Activities		**−2,709**	**−9,363**
Cash Flow from Financing Activities			
Dividend Payments		−1,665	0
Incoming Payments from Allocations of Equity Capital		6,250	0
Loans Taken Out		0	5,748
Repayment Installments for Loans		−741	−280
Net Income in Cash and Cash Equivalents from Financing Activities		**3,844**	5,468
Net Income in Cash and Cash Equivalents		**2,803**	**1,767**
Cash and Cash Equivalents at the Beginning of the Fiscal Year	5.	10,637	8,855
Impact of Changes in Exchange Rates on Cash and Cash Equivalents		2	15
Cash and Cash Equivalents at the end of the accounting year	**5.**	**13,442**	**10,637**
Limited Available Funds	**3.7**	10	2,010

Notes on the Consolidated Accounts

for Fiscal 2010

1. Principles of Reporting

1.1. General Information

GK SOFTWARE AG is a joint-stock company based in Germany. The address of the registered headquarters and head office for business operations is Waldstrasse 7, 08261 Schöneck.

GK SOFTWARE AG is registered in the Commercial Register at Chemnitz Local Court under reference number HRB 19157.

The group's business involves the development and production and sales and trade in software and hardware. The group has developed from being an exclusively project-oriented to a product-oriented provider during the past few years.

The group manages its capital – which not only includes equity capital but all accounts receivable and accounts payable – with the aim of guaranteeing the group's ability to service its loans and debts and provide sufficient liquidity to maintain collateral for investment projects at all times. As a result, the group attaches the greatest priority to maintaining capital reserves.

These goals are monitored by tracking financial indicators (e.g. the current liquidity balance, net debts, capital turnover speed) for the target corridors. The aim of maintaining adequate capital is supported by investing cash and cash equivalents in a non-risk manner and financial instruments are only used to the extent that they are needed to provide collateral for actual business deals.

The consolidated group's major customers include:

- CJSC „Trade House" (X5 Retail Group)
- Coop Genossenschaft
- EDEKA Zentralhandelsgesellschaft mbH
- Galeria Kaufhof GmbH
- Hornbach-Baumarkt-AG
- Netto Marken-Discount AG & Co. KG
- Parfümerie Douglas GmbH
- SAP AG
- Tchibo GmbH

1.2. Principles of Presentation

The GK SOFTWARE AG consolidated accounts have been prepared according to the International Financial Reporting Standards (IFRS), as they are used within the European Union (EU), and according to the commercial law regulations that also need to be followed according to Section 315a, Paragraph 1 of the German Commercial Code. GK SOFTWARE AG has applied all the IFRS rules issued by the International Accounting Standards Board (IASB) and those in force and adopted for use in the EU by the European Commission at the time that these consolidated accounts were compiled.

The accounts for GK SOFTWARE AG and its subsidiaries have been incorporated in the consolidated accounts taking into consideration the approaches and assessment methods that apply to the group.

All the official statements or changes to official statements listed in the following table and published by the IASB, which were used for the first time in fiscal 2010, did not have any or any major effects on the presentation of the assets, financial and earnings situation or the cash flows at GK SOFTWARE AG.

GK SOFTWARE has applied the following pronouncements or changes to the official statements made by the IASB during the year under review for the first time:

Official statement	Date of publication by the IASB	Title
IAS 39	31 July 2008	Financial Instruments: Recognition and Measurement
IFRIC 17	27 November 2008	Distribution of Non-Cash Assets to Owners
IAS 24	4 November 2009	Related Party Disclosures
Annual Improvements Project	16 April 2009	Improvements to IFRSs
IFRS 2	18 June 2009	Share-based Payment

IAS 39: "Financial Instruments: Recognition and Measurement." The change in IAS 39 was adopted by the European Union into European law in September 2009. The change entitled "Eligible Hedged Items" specifies that changes to the cash flow or fair value alone in a basic transaction above or below a particular price or a different variable can be designated a hedge. The rules must be applied retrospectively. This change has not resulted in any major effects on the presentation of the assets, financial and earnings situation or the cash flow at GK SOFTWARE.

IFRIC 17: "Distribution of Non-Cash Assets to Owners." IFRIC 17 was adopted into European law by the European Union in November 2009. The interpretation affects the recognition and valuation of liabilities from dividend payouts in the form of dividends in kind (e.g. property, plant and equipment) and clarifies the issue of how any difference between the carrying amount of the assets paid out as dividend and the fair value of the dividend that has been paid should be entered on the balance sheet. GK SOFTWARE has been using IFRIC 17 since 1 January 2010. The application of IFRIC 17 has not led to any major effects on the presentation of the assets, financial and earnings situation or the cash flow at GK SOFTWARE.

IAS 24: "Related Party Disclosures." The IASB published changes to IAS 24 in November 2009. In the past companies, which were state-controlled or subject to major state influence, had to disclose information on all their business transactions with companies, which are state-controlled or subject to major state influence. According to the amended standard, information still has to be provided if it is important for the addressees of agreements. But from now on, the standard excludes any information, which can only be made available at great expense or is of little value to the addressees. This is achieved by only requiring information on those business transactions, which are important individually or when taken together. The definition of a closely related company or a closely related person has also been simplified and discrepancies have been eliminated. These changes were adopted into European law by the European Union in July 2010. The revised standard has to be applied retrospectively for the reporting periods that start on or after 1 January 2011. Companies may apply it prior to this date. GK SOFTWARE has been using the changes in IAS 24 ahead of schedule since 1 January 2010. These changes have not resulted in any major effects on the presentation of the assets, financial and earnings situation or the cash flow at GK SOFTWARE.

"Improvements to IFRSs." This involves the second Annual Improvements Project, which envisages changes to twelve current standards and interpretations. The changes were adopted into European law by the European Union in March 2010. GK SOFTWARE has been using the changes since 1 January 2010. These changes have not resulted in any major effects on the presentation of the assets, financial and earnings situation or the cash flow at GK SOFTWARE.

IFRS 2: "Share-based Payment." The changes affect the accounting procedures for group-settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers, which are paid for by the parent company or another company within the group. These changes were adopted into European law by the European Union in March 2010. A company, which receives goods or services as part of a share-based payment agreement, has to enter them in its accounts, regardless of which company within the group fulfills the relevant obligation or regardless of whether the obligation is met in shareholdings or cash. The Board also clarified the following: The term "group" in IFRS 2 has the same meaning as in IAS 27 "Consolidated and Separate Financial Statements." The changes to IFRS 2 involve the inclusion of rules in this standard, which were previously part of IFRIC 8 "Scope of IFRS 2" and IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions." As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11. GK SOFTWARE has been using the changes to IFRS 2 since 1 January 2010. The changes have not resulted in any major effects on the presentation of the assets, financial and earnings situation or the cash flow at GK SOFTWARE.

Standards, interpretations and changes that have been published, but not yet applied

The IASB published an amendment to Standard IAS 32 "Financial Instruments: Presentation" in October 2009. This amendment was adopted into European law by the European Union in December 2009. This involves the clarification of the classification of rights issues as financial equity or a financial liability, if the rights issues are payable in a different currency from the functional currency of the emitter. In the past, these kinds of rights were entered on the balance sheet as derivative liabilities. The amendment envisages that these kinds of rights issues, which are issued at a fixed currency amount to the shareholders of a company on a pro-rata basis, should be classified as equity. The currency of the exercise price is not important. The changes come into force for business years, which start on or after 1 February 2010. The amendment will probably have no major effects on the presentation of the assets, financial and earnings situation or the cash flow at GK SOFTWARE.

The IASB published IFRS 9 "Financial Instruments" in November 2009. The changes have not yet been adopted into European law by the European Union. The standard is the result of the first of three phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement" by means of IFRS 9. IFRS 9 governs the classification and valuation of financial assets. The rules for valuation adjustments to financial instruments and hedge accounting are currently being revised by the IASB. IFRS 9 prescribes that financial assets must be assigned to one of the two following valuation categories: "amortized costs" or "fair value." IFRS 9 also grants accountants the option of selecting between valuation at fair value, by allowing financial assets, which would normally have been classified as "amortized costs" to be classified under "fair value," if this eliminates or significantly reduces incongruities in valuation or recognition. Equity instruments must be assigned to the "fair value" category.

The standard, however, allows the exercise of an irrevocable option for the first recognition of equity instruments, which were not acquired for trading purposes, so that they are designated under the "fair value" equity in a way that produces neither a profit nor a loss. Any dividends received in this way are shown in the income statement in a way that results in neither a profit nor a loss. IFRS 9 must be applied for business years that start on or after 1 January 2013. The rules must be applied retrospectively.
GK SOFTWARE is examining the effects resulting from this for the presentation of its assets, financial and earnings situation and its cash flow.

The IASB issued an amendment to the rules for entering pension plans in the accounts in November 2009. The amendment was adopted into European law by the European Union in July 2010. It affects the interpretation of IFRIC14 "Prepayments of a Minimum Funding Requirement," which, for its part, represents an interpretation of IAS 19 "Employee Benefits." The amendment applies in limited circumstances, where a company is subject to minimum funding rules and makes prepayment of the contributions that satisfy these requirements. It allows companies to report this kind of prepayment as an asset. The amendment came into force as a compulsory element on 1 January 2011. The rule stipulates that it must be applied retrospectively. GK SOFTWARE is examining the effects resulting from this for the presentation of its assets, financial and earnings situation and its cash flow.

The IASB published IFRIC Interpretation 19 on "Extinguishing Financial Liabilities with Equity Instruments" in November 2009. IFRIC 19 was adopted into European law by the European Union in July 2010. The interpretation provides assistance for interpreting IFR S for borrowers, who manage to renegotiate their loan with a finance provider so that it accepts equity instruments as the full or partial repayment of the financial liabilities. IFRIC 19 lays down that the equity instruments, which are paid to the finance provider, must be viewed as a "paid fee" in order to fully or partially close out the financial liability from the accounts.

Furthermore, these equity instruments must be valued at their fair value. If it is not possible to assess this reliably, the equity instruments are valued at the fair value of the repaid financial liability. Any difference between the carrying amount of the financial liability and the initial measurement amount of the equity instruments issued is recorded in the income statement. The interpretation came into force for business years that start on or after 1 July 2010. The application of IFRIC 19 will probably not lead to any major effects on the presentation of the assets, financial and earnings situation or the cash flow at GK SOFTWARE.

The IASB published pronouncements as part of its third "Annual Improvements Project" in May 2010, which contain amendments to six standards and one interpretation. The amendments have not yet been adopted into European law by the European Union. The amendments do not have any major effects on the presentation of the assets, financial and earnings situation or the cash flow at GK SOFTWARE and are designed to be applied in business years that start on or after 1 January 2011.

The IASB published its pronouncement entitled "Disclosures – Transfers of Financial Assets" as a supplement to IFRS 7 "Financial Instruments: Disclosures" in October 2010. The amendment prescribes quantitative and qualitative information on these kinds of transfers of financial assets, where the transferred assets are not completely closed out from the accounts or where continuing involvement remains for the company making the transfer. This should enable users to gain a better view of these kinds of transactions (e.g. securitization) and the potential effects of any retained risks for the transferring company are shown. The amendment also demands additional information, if a disproportionately high number of these kinds of transactions are made close to the reporting date for the period. The amendments come into effect for business years that start on or after 1 July 2011. This pronouncement has not yet been adopted into European law by the European Union. GK SOFTWARE is examining the effects resulting from this for the presentation of its assets, financial and earnings situation and its cash flow.

The IASB also published its rules on entering financial liabilities on the balance sheet in October 2010. These are integrated in IFRS 9 "Financial Instruments" and replace the existing rules on this matter in IAS 39 "Financial Instruments: Recognition and Measurement." The new pronouncement takes over the rules for inserting or removing items in the accounts and most of the rules for classification and valuation from IAS 39 without making any changes. The rules for the fair value option for financial liabilities to answer issues regarding a company's own credit risk, have, however, been modified in the new IFRS 9 and the prohibition on valuing these kinds of derivative liabilities linked to a non-listed equity instrument and which can only be settled by the delivery of these kinds of instruments at their fair value has been eliminated. This pronouncement should be applied to business years that start on or after 1 January 2013. This pronouncement has not yet been adopted into European law by the European Union. GK SOFTWARE is examining the effects resulting from this for the presentation of its assets, financial and earnings situation and its cash flow.

The IASB published its pronouncements on "Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12" in December 2010. The new official statement determines which kind of realization has to be presumed for particular assets. This is important in cases where different tax consequences arise, depending on the type of realization that is applied. The pronouncement sets forth the rebuttable presumption that the carrying amount of real estate held as a financial investment, which is valued according to the revaluation model in IAS 40 "Investment Property" at its fair value, will be recognized through a sale in the market. Furthermore, the irrefutable assumption applies under any circumstances that the carrying amount of an asset, which cannot depreciate and is valued according to the revaluation model in IAS 16 "Property, Plant and Equipment" at the revaluation amount, will be recognized through a sale in the market. The new pronouncement annuls the interpretation SIC 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets." The new rules should be applied in business years that start on or after 1 January 2012, but the rules have not yet been adopted into European law by the European Union. GK SOFTWARE is examining the effects resulting from this for the presentation of its assets, financial and earnings situation and its cash flow.

Group accounts were first presented in line with IFRS on 31 December 2005.

The group accounts are presented in euros.

The two-statement approach (IAS 1.81 (b)) has been selected for the statement of comprehensive income. The breakdown of the balance sheet according to IFRS has been made according to the term of the individual balance sheet items.

The group income statement is presented according to the total cost method of accounting.

GK SOFTWARE AG generally accounts for trade accounts receivable and accounts payable as current items on the balance sheet. Pension obligations are shown as non-current liabilities in line with their character.

Claims and liabilities for deferred taxes are shown as non-current items.

1.3. Consolidated Companies

The consolidated accounts include GK SOFTWARE AG and all the companies where GK SOFTWARE AG has majority voting rights among the shareholders.

The consolidated companies not only include the parent company, but also three companies based abroad (EUROSOFTWARE s.r.o., Plzen/Czech Republic, StoreWeaver GmbH, Riehen/Switzerland and GK Soft GmbH, Zurich/Switzerland). StoreWeaver GmbH, Riehen/Switzerland, and GK Soft GmbH, Zurich/Switzerland, were set up as 100 percent subsidiaries of GK SOFTWARE AG in 2008. SQ IT-Services GmbH, Schöneck, which was founded to acquire the business operations of Solquest GmbH and is totally owned by GK SOFTWARE AG, and 1. Waldstraße GmbH, Schöneck, which was set up in preparation to absorb new business activities and is also a 100 percent subsidiary of GK SOFTWARE AG, have both been included among the consolidated companies for the first time in 2009.

1.4. Principles of Consolidation

The annual accounts for the subsidiaries are listed for the same fiscal as the annual accounts for the parent company, using unified balance sheet and assessment methods. Any possible differences that emerge in the balance sheet and assessment methods are unified by relevant adjustments to the balance sheet and assessment principles for the parent company.

In the case of mergers according to IFRS, the capital consolidation is based on the method of acquisition.

The identifiable assets and liabilities are completely entered at their fair values (taking into consideration deferred taxes) at the time of acquisition. The remaining assetsside difference is shown as goodwill. Any remaining liabilities-side difference is entered directly and affects the results. In the periods following the corporate merger, the disclosed hidden assets and hidden liabilities are continued, depreciated or written off in line with the treatment of the corresponding assets.

Initial consolidation takes place with effect from the day on which GK SOFTWARE AG has a controlling holding with regard to the subsidiary, either directly or indirectly. Inclusion ends at the time when the control of the subsidiary passes to a company outside the group.

Internal profits and losses within the group, sales, expenditure and earnings or the accounts receivable and payable, which exist between the consolidated companies, have been eliminated. The effects on taxes on profits have been taken into account in the consolidation procedures that affect the results and deferred taxes have been taken into consideration.

1.5 Currency Conversion

The consolidated accounts have been presented in euros, the functional currency and the currency that the group uses in presentations. Each company within the group establishes its own functional currency. The items included in the annual accounts for each company are assessed using this functional currency. Foreign currency transactions are initially converted at the spot rate that is valid on the day of the business transaction between the functional currency and the foreign currency. Monetary assets and liabilities in a foreign currency are converted to the functional currency at the rate that applies on the balance sheet date.

The effect of any gains and losses arising from currency transactions on corporate results has been shown under other operating earnings or expenditure.

2. Balance Sheet and Assessment Principles

2.1. Property, Plant and Equipment

The balance sheet values of property, plant and equipment are based on purchase costs or production costs plus additional purchase costs, reduced by scheduled depreciation. These assets depreciate in a linear and pro rata fashion in line with their economic serviceable life. The records take into account any probably long-term reductions in value, which go beyond any depreciation linked to an item’s use, by means of unscheduled depreciation. If the reasons for the unscheduled depreciation cease to apply, relevant write-ups are made. So far, unscheduled depreciation has not been necessary.

Depreciation in the case of buildings takes place in a linear fashion over a useful serviceable period of 33 years. Non real estate fixed assets depreciate in a linear fashion as a matter of principle; the useful serviceable life for technical equipment and machines amounts to between three and ten years and the same period for other equipment, operating and business fixtures.

Fully depreciated property, plant and equipment assets are shown with purchasing and production costs and accumulated depreciation until the assets in question are removed from operation. When assets are disposed of, the purchasing and production costs and the accumulated depreciation are canceled from the books and the results of disposing of assets (disposal revenues minus residual carrying amounts) are shown in the income statement under other operating revenues or other operating expenditure.

2.2. Intangible Assets

2.2.1. Intangible Assets Acquired in Return for Payment

Intangible assets that have been acquired in return for payment are entered at purchasing or production costs minus any accumulated amortization and write-down value. The amortization expenditure is entered in a linear fashion across the expected useful serviceable life as expenditure. The expected useful serviceable life and the method of amortization are checked at the end of each fiscal year and any changes to estimates are taken into account prospectively.

2.2.2. Intangible Assets Developed In-House

Costs for research activities are entered as expenditure during the period in which they are incurred.

An intangible asset that has been developed in-house, which is the result of development work (or the development phase of an internal project) is entered if the following evidence can be provided accumulatively

- The technical feasibility of the completion of the intangible asset value exists in order to make it available for use or for sale.
- The company does intend to complete the intangible asset and use it or sell it.

- There is a capability for using or selling the intangible asset.
- If there is evidence of how the intangible asset will achieve probably achieve some economic benefits in the future.
- There is some availability of adequate technical, financial or other resources in order to complete the development and be able to use or sell the intangible asset and
- There is an ability to reliably determine the expenditure that can be allocated within the framework of developing the intangible asset.

The amount used to capitalize an intangible asset that has been developed in-house for the first time is the total amount of expenditure that was incurred from the day when the intangible asset cumulatively met the conditions outlined above. If an in-tangible asset, which has been developed in-house, cannot be entered as an asset, the development costs are entered to affect the results during the period in which they were incurred.

Intangible assets developed in-house are valued in just the same way as purchased intangible assets by their purchase or production costs minus any accumulated amortization and write-down value. The amortization starts in the year of their capitalization with the pro rata amount.

2.2.3. Goodwill

With regard to allocating a purchase price, the purchase of the operating business of Solquest GmbH in 2009 led to the formation for the first time of a “goodwill” intangible asset as that part of the purchase price, which cannot be assigned to capitalized assets. This mainly involves the expertise of the Solquest GmbH members of staff, who were taken over by GK SOFTWARE AG, in the field of the merchandise management system and processes.

The goodwill is checked at least once a year. If results or circumstances provide evidence that the carrying amount may have fallen, a check will also take place. Any reduction would be determined by discovering the expected, achievable amount for the units that would generate cash and cash equivalents. If this amount falls below the carrying amount of the assigned goodwill, the impairment change is entered and this may not be reversed during the following reporting periods. Regular checks are made on 31 December each year.

2.2.4. Customer Base

The purchase of the operating business of Solquest GmbH in 2009 led to the formation for the first time of a “customer base” intangible asset by assigning the purchase price. The valuation was determined according to the expected influx of funds from the unit, which generates cash and cash equivalents and to which the customer base is allocated.

The performance-related amortization method is used for the customer base. As soon as there are some signs that the carrying amount of the customer base exceeds the expected influx of funds, the customer base is revalued with this lower figure. Any impairment charges are entered under the item “Extraordinary amortization.” The expected influx of funds is the lower of the two values from the fair value minus any sales expenditure and the value in use. The value in use is the cash flow reduced to its cash value minus any interest for the unit, which could generate cash and cash equivalents and to which the customer base is assigned.

2.2.5. Write-Downs of Property, Plant and Equipment and Intangible Assets with the Exception of Goodwill

At each reporting date, the group checks the carrying amounts of property, plant and equipment and intangible assets in order to determine whether there are any indications of the need to write down these assets. If these indications are seen, the achievable value of the asset is assessed in order to determine the scope of any possible write-down expenditure. If the achievable amount for the individual asset cannot be estimated, an estimate is made of the achievable value of the unit that generates cash and cash equivalents, to which the asset belongs. If an appropriate and constant basis can be determined for allocation, the joint assets are allocated to the units that generate the individual cash and cash equivalents. Otherwise, an allocation to the smallest group of units generating cash and cash equivalents takes place, for which an appropriate and constant principle of allocation can be determined.

The achievable amount is the higher amount arising from the fair value minus any sales costs and the value in use. When determining the value in use, the estimated future flows of cash are discounted by a pre-tax interest rate. On the one hand, this pre-tax interest rate takes into account the current market assessment above the fair value of the money and, on the other hand, the risks inherent in the asset, if they have not been included in the flows of funds.

If the estimated achievable amount of an asset (or a unit generating cash and cash equivalents) is less than the carrying amount, the carrying amount of the asset (or unit generating cash and cash equivalents) is reduced to the achievable amount. The expenditure for the write-down is entered immediately in the accounts.

If the expenditure on write-downs should reverse subsequently, the carrying amount of the asset (or unit generating cash and cash equivalents) is increased to the latest estimate of the achievable amount. The increase in the carrying amount is restricted to the value, which would have occurred if no write-down expenditure had been entered for the asset (unit generating cash and cash equivalents) in previous years. Any write-up is directly entered in the accounts.

2.3. Trade Accounts Receivable and Other Accounts Receivable

Accounts receivable and other assets are valued at their nominal value. Any recognizable individual risks are taken into account by means of write-downs

2.4. Cash and Cash Equivalents

Cash and cash equivalents have been entered at their nominal value. Cash and cash equivalents have been entered in accordance with IAS 7.6.

2.5. Share Option Program

GK SOFTWARE AG has continued to develop since the time that it was founded. As a provider of innovative solutions and services related to end-to-end software for stores, the company has been able to continually attract new customers and partners. This constant success is primarily based on the innovative energy and willing dedication of the company's employees and those at associated companies. A decision was therefore made to improve the commitment and motivation of leading employees and those who are providing special services by introducing a share option program to supplement their normal remuneration.

Options were first issued to employees, who are part of the management team within the Group (entitlement group II) and employees who have worked in an outstanding manner (entitlement group III) in July 2010. The company has been able to grant entitlement group II up to 11,000 subscription rights to an individual share certificate and up to 3,000 subscription rights to entitlement group III. Each subscription right grants the right to a no-par GK SOFTWARE AG individual share certificate made out to the holder. These shares are being newly issued from the conditional capital amounting to EUR 37,000.00, a decision authorized by the annual shareholders' meeting on 14 May 2008, if the subscription right is exercised in the future. The subscription right is not transferable and is subject to conditions of exercise, which are identical for employees in both entitlement groups.

The subscription right can be exercised for the first time after a waiting period of 2 years, if the beneficiary has a job at GK SOFTWARE AG or one of its subsidiaries, which has not been terminated, and the average price of the shares has been at least EUR 50 on the XETRA trading floor within four weeks prior to any exercising of the rights. The right to exercise this option lapses after six months.

Development of outstanding, exercised and expired or lost options	Number of options
Options outstanding on 1 January 2010	0
Options granted during the course of fiscal 2010	12,300
Options lost during the reporting period	0
Options expiring during the reporting period	0
Outstanding options on 31 December 2010	12,300
Exercisable options on 31 December 2010	0

The outstanding options on 31 December 2010 have an exercise price of EUR 10 and had a probable average exercise period of two years on the balance sheet date. According to IFRS 2.11, the equivalent value of the granted options was determined by the fair value of the equity instruments on the issue date (1 July 2010), as the contractual partners are company employees or employees at associated firms. The fair value was determined using simulation in the Monte Carlo process. For the simulation process, it was presumed that the beneficiaries of the options would exercise their options as quickly as possible. On the valuation date, the price of the shares, which form the basis of the option, amounted to EUR 54.49. The retention period is 2 years, which makes 30 June 2012 the vesting date. The term of the option from the issue date is as far as 2½ years. The risk-free interest rate of 0.63% was derived from the WT3213 time series yield curve (Svensson method) for publicly listed Federal Treasury bonds / with a 2-year term / and issued by Deutsche Bundesbank on 1 July 2010. The volatility was calculated in line with an estimated average term of option rights of 2¼ years based on the company share price from 17 August 2008 until 18 February 2011 as historic volatility. This enabled the company to exclude as far as possible any excessive fluctuations directly after the IPO. The volatility established in this way amounted to 49.18%. The members of the board did not take part in the stock option program.

Based on 10,000,000 simulations, the fair value of each option was EUR 33.354, which provides a figure of EUR 410,254 for 12,300 options. This figure must be entered as human resources expenditure on a pro-rata basis for the elapsed retention period and assigned to the capital reserves. The expenditure for the year under review amounted to EUR 102,564.

2.6. Provisions for Pensions and Similar Obligations

Provisions for pensions are entered on the balance sheet according to the projected unit credit method. Any future obligations are valued on the basis of actuarial assessments.

There are reinsurance policies, which are pledged to the beneficiaries. As the conditions for entering them as plan assets are met, their capitalized value is balanced out with the provision.

However, the company not only includes in the accounting any known contingent rights on the balance sheet date, but also any expected increase rates in salaries and pensions for the future and the inflation rate. The discount factor is governed according to the IFRS by the long term investment rates. The corridor method has not been used. In other matters, calculations are based on the biometric probability values in the 2005 Guideline Tables published by Prof. Klaus Heubeck.

2.7. Non-Current Liabilities

The non-current interest-bearing liabilities have been entered on the balance sheet as the amount that has to be repaid.

2.8. Public Sector Subsidies

Public sector subsidies are not included in the figures until appropriate collateral exists for them that the group will meet the conditions attached to the subsidies and the subsidies are actually granted.

Public sector subsidies, the most important condition for which is the sale, construction or other kind of purchase of non-current assets, are entered on the balance sheet as accruals and deferrals and are entered on a systematic and reasonable basis so that they affect the income statement over the term of the relevant asset.

Other public sector subsidies are entered as a type of revenue over the period, which is necessary to allocate them on a systematic basis to the relevant expenditure that they are designed to balance out. Public sector subsidies, which are granted in order to compensate expenditure or losses that have already been incurred or for the purpose of providing immediate financial support to the group, for which there will not be any corresponding costs in the future, are entered in the income statement during the period in which the claim for their entitlement arose

2.9. Current Provisions

Provisions are formed for uncertain obligations that could arise towards third parties, if these obligations will probably create a decline in resources in the future. They are set at the probable settlement amount, taking into account all the recognizable risks and are not allocated with any right of recourse. No provisions are laid aside for future expenditure, which does not relate to third-party obligations.

2.10. Other Current Liabilities

Current liabilities are entered as the amount for repayment or settlement.

2.11. Taxation

The expenditure on income tax represents the total current tax expenditure and deferred taxes.

2.11.1. Current Taxes

The current tax expenditure is determined on the basis of the income that is subject to tax during the year. The income, on which tax is to be paid, is different from the consolidated net income from the group income statement, as it excludes expenditure and revenues, which will not attract tax in later years or at any time or can be offset against tax. The group's liability for current taxes will be calculated on the basis of current tax rates that apply or those that will apply in the near future from the point of view of the balance sheet date.

2.11.2. Deferred Taxes

Deferred taxes are entered to cover the differences between the carrying amount of assets and liabilities in the consolidated accounts and the relevant tax valuation rates as part of calculating the taxable income and they are entered on the balance sheet according to the asset and liability method. Deferred tax debts are entered on the balance sheet for all temporary differences in tax terms and deferred claims for taxes are entered if it is probably that taxable profits will be available, for which these temporary differences can be used to offset tax payments. These assets and liabilities are not entered if the temporary differences result from goodwill or from the initial entry of other assets and liabilities (except in the case of company mergers), which result from events, which do not affect the taxable income or the consolidated net income.

Deferred tax liabilities are formed for temporary differences in tax payments, which arise from shareholdings in subsidiary companies, unless the group can manage the reversal of the temporary differences and it is probable that the temporary difference will not reverse within the foreseeable future.

The carrying amount of the deferred tax claims is checked every year on the balance sheet date and is lowered, if it is no longer probable that sufficient taxable income will be available in order to realize the claim completely or in part.

Deferred tax claims and tax liabilities are determined on the basis of the expected tax rates (and tax laws), which will probably apply at the time when the liability has to be paid or when the asset value is realized. The valuation of deferred tax claims and tax liabilities reflects the tax consequences, which would arise from the manner that the group is expecting on the balance sheet date in order to settle the liability or realize the asset value.

Deferred tax claims and tax liabilities are balanced out if there is an enforceable right to offset current tax claims with current tax liabilities and if they are related to income taxes that are collected by the same tax authority and if the group intends to settle its current tax claims and tax liabilities on a net basis.

2.11.3. Current and Deferred Taxes in the Period

Current and deferred taxes are entered as expenditure or earnings in the income statement unless they relate to items, which were directly entered under equity. In this case, the tax is also entered directly under equity. Equity procurement costs of tEUR 178 were incurred in fiscal 2010 and they were directly entered in the accounts under equity. Income tax (tEUR 52) linked to this was also directly entered under equity.

2.12. Revenue Recognition

Sales revenues are evaluated at their fair value of the equivalent received or to be received and are reduced by expected customer returns, discounts and other similar deductions.

2.12.1. Verkauf von Gütern

Sales revenues from the sale of goods are entered, if the following conditions have been met:

- The group has transferred the major risks and opportunities from the ownership of the goods to the purchaser.
- The group neither retains an ongoing right of disposal, such as is usually connected to ownership, nor does it have any effective power of disposal over the sold goods and products.
- The amount of sales revenues can be reliably determined.
- It is probable that the economic benefits from the business transaction will flow to the company and
- the expenditure incurred or still being incurred in connection with the sale can be reliably determined.

2.12.2. Providing Services

Revenues from service contracts are entered according to the degree to which they have been completed. In more detail, revenue recognition takes place as follows:

Revenues from licenses:
Revenue recognition takes place at the time that the productive till system or a functioning software solution is handed over to a customer.

Revenues from services (customizing) and revenues from adjustments outside the contractually agreed service (change request):
The revenue recognition in principle takes place at the time when the agreed service is handed over to or accepted by the customer. As the acceptance periods could be too far apart because of new project structures, the services are valued according to IAS 18.20 in conjunction with IAS 18.26 in order to guarantee revenue recognition (IAS 18) that meets the requirements of IFRS. In the case of service business, for which it was impossible to reliably assess the results – particularly those where the degree of completion was hard to determine – we only recorded this item in terms of expectations about the recovery of costs that were incurred (IAS 18.26). In the case of those projects where the results could be reliably assessed (IAS 18.20), revenues were entered in line with the degree of completion. Both the amount of revenues and the amount of costs incurred in the business and also

the expected total costs of the business transaction can be reliably determined. It is also probable that the economic benefits will accrue for the company.

The degree of completion is determined according to the degree of completion of the service being provided and – prior to the first measurement date or between two measurement dates – according to the actual costs already incurred and the planned work to complete the overall service until the next measurement date. The amount of contract revenues is determined from the agreed job amount for performing the work by the measurement date or – prior to the first measurement date or between two measurement dates – proportionate to the actual work performed in terms of the total work performance planned for the reporting date as a share of the contract amount prior to the next measurement date.

Revenues from servicing work:
Revenues from servicing work are included in the accounts at the contractually agreed rates for the number of hours that have been worked and any costs that have been directly incurred on a monthly basis. If there is no direct reference to specific work performed and payments are made for servicing work beyond the period of one month, revenue recognition takes place at a monthly pro rata rate.

2.13. Management Estimates and Appraisals

In preparing the annual statements, assumptions have to be made to a certain degree and estimates are made, which have an effect on the level and statements of assets and liabilities or earnings and expenditure on the balance sheet. The assumptions and estimates largely relate to an assessment of the intrinsic value of intangible assets, a unified definition of the economic serviceable life of property, plant and equipment and the accounting procedures and assessment of provisions. The assumptions and estimates are based on premises, which in turn are founded on the level of awareness that is available at the current time. Particularly with regard to the expected future business development, the circumstances that exist at the time when the net income for the period is prepared and a realistic assessment of the future development of the global and sector-based business environment form the basis of the estimates. The amounts that have been entered may deviate from the originally expected estimated values as a result of developments in these general conditions, which differ from the assumptions and lie beyond the sphere of influence of management. If actual developments differ from those that are expected, the premises and, if necessary, the carrying amounts of the assets and liabilities that are affected will be adjusted accordingly. At the time when the annual statements were prepared, the assumptions and estimates on which they were based were not subject to any major risks, so that management assumes that no major adjustment of the carrying amounts of the assets and liabilities indicated on the balance sheet will be necessary in the following fiscal year from the current point of view.

2.13.1. Main Sources of Uncertainty Regarding Estimates

The following text indicates the most important assumptions made with regard to the future and the other major sources of uncertainty regarding estimates on the balance sheet date. A major risk could arise as a result of these and mean that a major adjustment to the assets and liabilities recorded here would be necessary.

Intrinsic value of intangible assets developed in-house
Management once again assessed the intrinsic value of the intangible assets developed in-house as a result of the group's development of software. Value adjustments have not been necessary. These intangible assets have been taken into account at a value of tEUR 1,853 on the consolidated balance sheet dated 31 December 2010.

The progress made in projects has continued to be very satisfactory and customer response has confirmed the previous estimates that management made regarding expected revenues. However, management is continuing to check its assumptions regarding future market shares and expected profit margins for its product. These checks have created a situation where the carrying amounts of this asset has been recognized at its full rate despite the possibility of lower revenues. The situation is being carefully monitored and, should the market situation demand it, adjustments will be made in subsequent fiscal years, if this is appropriate.

Intrinsic value of goodwill
As a result of the acquisition of the operating business of Solquest GmbH by SQ IT-Services GmbH, the group has entered an intangible asset worth tEUR 6,403 as goodwill for the very first time. The intrinsic value of this goodwill was checked on 31 December 2010. There were no indications that the expected and achievable influx of funds from the unit generating cash and cash equivalents being assigned to this goodwill figure might fall below the carrying amount of the goodwill.

Intrinsic value of accounts receivable from ongoing work
The accounts receivable from ongoing work amounting to tEUR 4,987 and entered on the balance sheet in line with IAS 18.27 are subject to continuing project monitoring as regards their intrinsic value. The course of the projects concerned largely matches the planning work and even the opportunity arising from recognition difficulties has not created a situation where an adjustment of the intrinsic value of accounts receivable from ongoing work needs to be made.

Intrinsic value of customer base
As a result of the acquisition of the operating business of Solquest GmbH by SQ IT-Services GmbH, the group has entered an intangible asset worth tEUR 777 under customer base for the very first time in 2009. The depreciation of the customer base takes place in a performance-related way and has been entered as tEUR 465 on the consolidated balance sheet on the balance sheet date. There were no indications of a need to correct the value beyond this figure.

Other sources of uncertainty regarding estimates exist with regard to the useful serviceable life of assets, with the assessment of the intrinsic value of trade accounts receivable and the assessment of the need to make provisions.

3. Notes on the Consolidated Balance Sheet

3.1. Property, Plant and Equipment

EUR	Real estate and buildings	Technical equipment and machines	Operating and business equipment	Initial payments made and facilities under construction	Total
Purchasing or production costs					
Figures on 1 January 2009	2,537,780.10	246,371.86	967,341.11	0.00	3,751,493.07
Accruals	56,026.96	37,419.88	324,629.73	794,346.10	1,212,422.67
Disposals	0.00	5,298.01	29,946.20	0.00	35,244.21
Figures on 31 December 2009	2,593,807.06	278,493.73	1,262,024.64	794,346.10	4,928,671.53
Accumulated depreciation					
Figures on 1 January 2009	362,916.17	208,116.32	587,378.13	0.00	1,158,410.62
Accruals	80,679.14	60,695.93	245,643.82	0.00	387,018.89
Disposals	0.00	5,298.01	21,618.33	0.00	26,916.34
Figures on 31 December 2009	443,595.31	263,514.24	811,403.62	0.00	1,518,513.17
Carrying amounts on 31 December 2009	**2,150,211.75**	**14,979.49**	**450,621.02**	**794,346.10**	**3,410,158.36**

EUR	Real estate and buildings	Technical equipment and machines	Operating and business equipment	Initial payments made and facilities under construction	Total
Purchasing or production costs					
Figures on 1 January 2010	2,593,807.06	278,493.73	1,262,024.64	794,346.10	4,928,671.53
Accruals	401,819.47	0.00	423,684.83	257,422.30	1,082,926.60
Disposals	0.00	0.00	126,368.42	0.00	126,368.42
Transfers	1,016,714.16	−278,493.73	313,547.97	−1,051,768.40	0.00
Figures on 31 December 2010	4,012,340.69	0.00	1,872,889.02	0.00	5,885,229.71
Accumulated depreciation					
Figures on 1 January 2010	443,595.31	263,514.24	811,403.62	0.00	1,518,513.17
Accruals	113,785.01	0.00	321,062.05	0.00	434,847.06
Disposals	0.00	0.00	117,691.07	0.00	117,691.07
Transfers	0.00	−263,514.24	263,514.24	0.00	0.00
Figures on 31 December 2010	557,380.32	0.00	1,278,288.84	0.00	1,835,669.16
Carrying amounts on 31 December 2010	**3,454,960.37**	**0.00**	**594,600.18**	**0.00**	**4,049,560.55**

Procurement obligations for other office and business equipment existed and amounted to approx. tEUR 75.

3.2. Intangible Assets

EUR	Capitalized development costs	Industrial property rights and similar rights and values	Goodwill	Customer base	Total
Purchasing or production costs					
Figures on 1 January 2009	2,242,819.09	236,288.00	0.00	0.00	2,479,107.09
Accruals	1,066,612.46	346,901.27	6,402,785.24	777,000.00	8,593,298.97
Figures on 31 December 2009	3,309,431.55	583,189.27	6,402,785.24	777,000.00	11,072,406.06
Accumulated amortization					
Figures on 1 January 2009	720,659.63	125,198.58	0.00	0.00	845,858.21
Accruals	639,537.21	132,833.69	0.00	121,600.00	893,970.90
Figures on 31 December 2009	1,360,196.84	258,032.27	0.00	121,600.00	1,739,829.11
Carrying amounts on 31 December 2009	**1,949,234.71**	**325,157.00**	**6,402,785.24**	**655,400.00**	**9,332,576.95**

EUR	Capitalized development costs	Industrial property rights and similar rights and values	Goodwill	Customer base	Total
Purchasing or production costs					
Figures on 1 January 2010	3,309,431.55	583,189.27	6,402,785.24	777,000.00	11,072,406.06
Accruals	648,834.32	247,746.79	0.00	0.00	896,581.11
Figures on 31 December 2010	3,958,265.87	830,936.06	6,402,785.24	777,000.00	11,968,987.17
Accumulated amortization					
Figures on 1 January 2010	1,360,196.84	258,032.27	0.00	121,600.00	1,739,829.11
Accruals	744,754.22	177,805.19	0.00	190,464.00	1,113,023.41
Figures on 31 December 2010	2,104,951.06	435,837.46	0.00	312,064.00	2,852,852.52
Carrying amounts on 31 December 2010	**1,853,314.81**	**395,098.60**	**6,402,785.24**	**464,936.00**	**9,116,134.65**

The capitalized development costs depreciate according to plan in a linear fashion over an estimated serviceable life of five years. The depreciation starts in the year of capitalization with the pro rata amount.

Research costs of tEUR 157 (tEUR 222 in fiscal 2009) were entered immediately as expenditure in fiscal 2010.

The cash generating unit that forms the basis of the goodwill that has been entered was determined by its utilization value, although the procurement costs must not be exceeded. The utilization value is entered as part of the purchase price, which cannot be allocated to assets that can be capitalized. The goodwill has been fully attributed to the cash-generating unit i.e. the LUNAR Project and the project business for this partial solution. The carrying amount on 31 December 2010 was unchanged at tEUR 6,403.

The utilization value was determined on the basis of detailed revenue and cost planning, which represents the normal conditions used by the Group. The influx of cash and cash equivalents, which were determined until 2013, were derived from these planning figures. The influx of cash and cash equivalents determined in this way were discounted at an interest rate of 8.06%. This was derived from historic capital costs. No growth rate was applied.

When assessing the utilization value, the ability of the unit generating the cash and cash equivalents to deliver its projects according to the contractual terms (on time, within budget and within specifications) is crucially important. If this is not achieved, claims for compensation from customers and the damage to the company's reputation could significantly impair the economic prospects of the unit concerned and even the whole Group. A serious possible impairment of the company's ability to deliver could arise, where the company could no longer tie the employees used in the projects to the company, as these employees are vital for the success of the projects. A significant loss of employees would jeopardize the successful completion of the project. The determination of the influx of payments was made until 2013 using detailed revenue and costs planning, which meets the normal conditions for the Group. The utilization value is also affected by the fact that the expanded world of enterprise solutions is being sold through partner firms.

3.3. Trade Accounts Receivable

The trade accounts receivable have a term of less than one year. The carrying amounts of the trade accounts receivable match their fair values. The total write-downs amount to tEUR 219 in all (tEUR 235 in fiscal 2009). The write-downs have been entered under other operating expenditure.

Accounts receivable in a foreign currency (CZK) amounting to tEUR 10 (tEUR 13 in the previous year) existed on the balance sheet date.

3.4. Accounts Receivable from Ongoing Work

Customer orders, for which sales revenues have been realized according to IAS 18.20 or according to IAS 18.26 in conjunction with IAS 18.20, must be shown as assets, if the amount of costs incurred plus the profits shown minus the losses and partial billings shown still generate a positive figure. This item amounted to EUR 4,986,663.20 on the balance sheet date.

3.5. Accounts Receivable from Associated Companies

There were no outstanding accounts receivable from associated companies on the balance sheet date. These accounts receivable from 2009 concern internal charges to GK Software Holding GmbH.

3.6. Other Accounts Receivable and Assets

EUR	31.12.2010	31.12.2009
Loans paid to third parties	2,536,114.33	2,381,297.38
Tax receivables	684,000.72	0.00
Accounts receivable from members of the Management Board	13,472.18	94,648.19
Others	324,598.07	271,312.19
Total	**3,558,185.30**	**2,747,257.76**

The accounts receivable from members of the Management Board relate to salary advances. The interest rate amounts to 5.0% p.a.

Other accounts receivable amounting to tEUR 139 existed in CZK on the balance sheet date (previous year: tEUR 88)

3.7. Cash and Cash Equivalents

Cash and cash equivalents are entered at their nominal value. The item contains cash holdings and current bank deposits with terms of less than three months. A further tEUR 19 was pledged as part of rent collateral with the bank providing the guarantee. The Management Board is expecting these guarantees to be taken up.

3.8. Equity Capital

We refer you to the statement of changes in equity for more information on changes to the equity at GK SOFTWARE AG on the 2010 balance sheet date.

The company's share capital amounted to EUR 1,665,000.00 on 1 January 2010 and was divided into 1,665,000 individual share certificates. The company carried out an increase of capital of EUR 125,000.00 (representing 7.5% of the existing share capital of EUR 1,665,000.00) on 20 December 2010 taken from the total subscribed capital of EUR 625,000.00, which was approved by the annual shareholders' meeting on 14 May 2008. The subscribed capital on 31 December 2010 amounted to EUR 1,790,000.00, which was divided into 1,790,000 individual share certificates with a mathematical holding in the share capital of EUR 1 each.

EUR	31.12.2010	31.12.2009
Subscribed capital		
1.665,000 fully paid up individual share certificates	1,665,000.00	1,665,000.00
Increase in capital: issue of 125,000 individual share certificates	125,000.00	0.00
Total	**1,790,000.00**	**1,665,000.00**

No shares were owned by GK SOFTWARE AG on the balance sheet date.

The following decisions were taken at the company's annual shareholders' meeting on 14 May 2008 and they could change the structure of the company's equity:

Establishment of authorized capital. The management board was empowered, with the agreement of the supervisory board, to increase the company's share capital from the period 15 May 2008 until 14 March 2013 on a single occasion or on several occasions, in order to reach a figure of EUR 625,000.00 by issuing up to 625,000 new ordinary shares without any nominal value (individual share certificates) in return for cash deposits or contributions in kind (authorized capital).

The Management Board made use of this authorization in December 2010 and carried out an increase in capital by EUR 125,000.00 by issuing 125,000 new no-par individual share certificates made out to the holder. The increase was entered in the German Register of Corporations on 23 December 2010. The subscribed capital not yet used now amounts to EUR 500,000.00.

Conditional capital. The management board with the agreement of the supervisory board was empowered to grant purchasing options on up to 37,000 individual share certificates on a single occasion or on several to members of the management board and managers of companies where GK SOFTWARE AG has a direct or indirect majority holding ("associated companies") and managers of the company and their associated companies as part of a share option program. A share option program has not yet been implemented. The company made use of this authorization for the first time in fiscal 2010 and issued 12,300 share options to Group employees.

The revenue reserves item not only contains the adjustment to the legal provisions, but also differences in amounts due to the initial switch to IFRS.

Dividend payments amounting to EUR 1,665,000.00 (representing EUR 1 per share) were made in fiscal 2010.

3.9. Provisions for Pensions

Actuarial profits and losses are amortized immediately.

In the income statement, the current service costs are entered under expenditure for pension schemes, the interest expenditure in the financial results and the revenues from re-insurance policies under other operating revenues. The assumptions from fiscal 2009 have been adopted in the same way on the 2010 balance sheet date.

The pension commitment is invested as a life-time fixed old-age pension, which is paid when a member of staff retires from the company on reaching the age of 65. A contingent right to a widow's pension amounting to 60% of the old-age pension exists if the member of staff suffers invalidity or dies.

The calculations are based on the following assumptions:

Pensionable age (m/f)	65/65
Actuarial interest rate / discount on 1 January 2010	5.70 % p.a.
Actuarial interest rate / discount on 31 December 2010 and for 2011	5.00% p.a.
Salary development / rate of benefit increase	0.00% p.a.
Rate of pension increase	1.50% p.a.
Expected yield from the plan assets	4.30% p.a.
Probability of fluctuation	none

The assets in question here are 100% insurance policies. The returns from the insurance companies are therefore used.

The calculations are based on the "2005 G Guideline Tables" published by Klaus Heubeck. The expected yields from the plan assets are exclusively achieved by insurance policies. The expected yields of the insurance company are used for the calculation work. The plan assets exclusively consist of re-insurance policies.

A reconciled financial statement of the opening and final balances of the cash value of the defined benefit obligations with the reasons for changes provides the following picture:

EUR	2010	2009
Account balance on 1 January:	131,606	126,520
+ Interest expenditure	+7,499	+6,957
+ Working Period Costs	+6,684	+6,753
+ Working period costs to be additionally calculated	+187,231	0
– Actuarial Profits	0	–8,624
+ Actuarial Losses	+104,004	0
Account balance on 31 December:	437,024	131,606

The development of the plan assets is shown as follows:

EUR	2010	2009
Plan assets on 1 January:	86,544	77,801
+ Expected Yields from Plan Assets	+3,905	+3,529
+ Contributions	+8,544	+8,544
– Actuarial Losses	0	–3,330
+ Actuarial Profits	+2,061	0
Balance on 31 December:	101,054	86,544

It is therefore clear that a sum amounting to EUR 335,970 (2009: EUR 45,062.00) in the plan is not financed by a fund.

The items that have been entered, which affect the commitment to pension payments during the year under review, are divided as follows:

EUR	2010	2009
Current Service Costs	6,684	6,753
Interest Costs	7,499	6,957
Expected Yields from Plan Assets	3,905	3,529
Actuarial Profits and Losses	104,004	8,624

All the items have been entered under "Expenditure for Old-Age Pensions."

The cash value of the defined benefit obligation is only distinguished by the amount of actuarial profits, which have not yet been entered on the balance sheet.

EUR	2010	2009
Cash Value of the Defined Benefit Obligation	437,024	131,606

EUR	2010	2009
– Account Balance of the Actuarial Change in Results	−335,970	−45,062
Fair Value of the Plan Assets	101,054	86,544

The cash value of the defined benefit obligation and the fair value of the plan assets have developed as follows:

EUR	Cash value of the defined benefit obligation	Fair value of the plan assets
2010	437,024	101,054
2009	131,606	86,544
2008	126,520	77,801
2007	122,331	69,340
2006	126,300	61,215

The increase in 2010 is the result of the enhancement in vested benefits. The adjustments based on experience can be represented as follows during the last five years:

EUR	Liabilities of the plan	Assets of the plan
2010	−42,275	−2,061
2009	2,666	3,330
2008	9,433	3,065
2007	2,369	3,112
2006	2,453	3,317

We assume that contributions amounting to EUR 8,544 will be paid into the plan during 2011. The actual revenues from the planned assets during the fiscal year amounted to EUR 5,966 following a figure of EUR 199 in the previous year.

3.10. Non-Current Bank Liabilities

Two investments loans (original amounts: tEUR 750 and tEUR 450) were taken out with the Commerzbank AG Plauen in fiscal 2007. The group also took over a loan (original amount: tEUR 225) from Gläß & Kronmüller OHG, Schöneck in the course of the merger. The loan, which was taken over during the course of the merger, was rescheduled during fiscal 2009. The two other loans were valued at a total of tEUR 859 on the balance sheet date. Three other loans were taken out during fiscal 2009 as a result of the new extension building, the above mentioned rescheduling and the acquisition of Solquest (DZ Bank tEUR 748, KfW tEUR 5,000). These loans were valued at tEUR 4,383 on 31 December 2010 with their non-current share (due date after 31 December 2011).

3.11. Public Sector Subsidies Charges to Subsequent Accounting Years

This item concerns investment subsidies subject to tax from the Free State of Saxony (provided by the Sächsische AufbauBank) as part of its regional business stimulus program and investment grants that are not subject to tax.

The amortization of the subsidies and grants takes place in a linear fashion over the serviceable life of the assets that have been supported by public funds.

3.12. Deferred Taxes

Please refer to section 4.9.

3.13. Current Provisions

EUR	Human resources department	Production department	Other departments	Total
Figures on 1 January 2009	425,236.70	279,264.00	94,140.00	798,640.70
Amounts used	425,236.70	104,264.00	70,835.10	600,335.80
Amortization	0.00	0.00	5,165.00	5,165.00
New funds	338,415.50	90,600.00	179,611.20	608,626.70
Figures on 31 December 2009	**338,415.50**	**265,600.00**	**197,751.10**	**801,766.60**
Figures on 1 January 2010	338,415.50	265,600.00	197,751.10	801,766.60
Amounts used	168,213.92	30,000.00	108,818.13	307,032.05
Amortization	170,201.58	0.00	0.00	170,201.58
Allocation	178,689.75	25,000.93	57,000.00	260,690.68
Figures on 31 December 2010	**178,689.75**	**260,600.93**	**145,932.97**	**585,223.65**

The current provisions in the human resources department primarily concern severance packages and mainly guarantees in the production department.

The calculations for warranty provisions are based on warranty costs in the past and estimates regarding future costs

3.14. Trade Accounts Payable

Accounts receivable are due to settled within one year.

Accounts payable in a foreign currency (CZK) amounting to tEUR 15 (tEUR 9 in the previous year) existed on the balance sheet date.

3.15. Initial Payments Received

The initial payments received have a term of less than one year. The company did not have any initial payments received in foreign currencies on the balance sheet date.

3.16. Income Tax Liabilities

This item contains the expected additional payments with regard to corporation tax, the solidarity surcharge and business tax in Germany and the Czech Republic.

3.17. Other Current Liabilities

The tax liabilities cover outstanding income tax payments and sales tax.

Other liabilities in a foreign currency (CZK) amounting to tEUR 276 (tEUR 167 in the previous year) existed on the balance sheet date.

EUR	31.12.2010	31.12.2009
Tax liabilities	1,896,390.42	1,473,107.75
Liabilities from wages and salaries	1,366,798.38	1,171,256.50
Other liabilities towards members of staff	14,490.14	14,065.88
Liabilities regarding the purchase prices of the operating business of Solquest GmbH	0.00	1,000,000.00
Others	837,015.42	285,360.17
Total	**4,114,694.36**	**3,943,790.30**

3.18. Secured Liabilities

Two investment loans were taken out with the Commerzbank AG Plauen in fiscal 2007. The loans are secured by the registered land charges on the company's real estate, recorded in the land register for Schöneck, Plauen Local Court, Page 1895. The company also assigned its accounts receivable from goods deliveries and services against third party debtors by means of a blanket assignment in order to provide collateral, with the exception of the accounts receivable in connection with the "LUNAR" project. Three other loans were taken out (DZ Bank, KfW) during fiscal 2009 as a result of the extension of the new building, the above mentioned rescheduling and the acquisition of Solquest. Land register debts were entered in the land register for Schöneck, Plauen Local Court, Pages 999, 1378 and 1895 as collateral for the DZ loan. The future accounts receivable from the "LUNAR" project were assigned in an undisclosed manner in order to provide collateral with the KfW.

4. Notes on the Consolidated Income Statement

4.1. Sales Revenues

The sales revenues are exclusively the result of the sale of hardware and software and the provision of services for European customers.

Sales amounting to tEUR 3,025 (representing the assets-side balance) were recorded during the business year for sales that were calculated according to IAS 18.20 in conjunction with IAS 11 (customized software). The evaluation of the sales revenues has been made in line with the degree of completion and the volume of the order. The degree of completion was determined according to the principles outlined in Paragraph 2.12.2. Costs amounting to tEUR 2,438 (profits of tEUR 587) were incurred. Advance payments were made by customers amounting to tEUR 3,500. Sales amounting to tEUR 1,962 were also realized during the reporting period as sales that were calculated according to IAS 18.27.

Overall, all the customer orders covered in this report had an assets-side balance and were entered with a figure in the "Accounts Receivable from Ongoing Work" section (cf. 3.4).

We refer you to section 6 "Segment Reporting" for the summary of the significant categories of revenues. Provisions for guarantees of tEUR 75 were formed for these revenues.

4.2. Own Work Capitalized

Own work capitalized comprises the capitalized production costs for development work on the software that is produced in-house. Direct and indirect cost ratios are included in the production costs.

4.3. Other Operating Revenues

EUR	2010	2009
Vehicle use	278,927.44	230,325.25
Reversals of provisions	259,377.65	5,164.90
Reduction value adjustments	164,000.00	35,295.55
Earnings from reversals of deferred public grants	68,042.61	27,604.00
Employee contributions towards food allowances	42,193.02	31,125.03
Earnings from other periods	10,923.52	168,717.66
Earnings from investment grants	6,707.88	6,707.88
Others	537,896.95	321,510.19
Total	**1,368,069.07**	**826,450.46**

4.4. Materials Expenditure

EUR	2010	2009
Expenditure on raw materials, consumables and supplies and goods purchased	534,629.54	338,904.62
Expenditure on purchased services	1,005,399.76	222,380.40
Total	**1,540,029.30**	**561,285.02**

4.5. Human Resources Expenditure

EUR	2010	2009
Wages and salaries	12,292,316.94	10,327,986.29
Social security contributions	2,140,632.60	1,723,519.34
Expenditure on retirement benefits	406,807.91	65,060.94
Total	**14,839,757.45**	**12,116,566.57**

On average, 324 people were employed during fiscal 2010 (270 in the previous year). 366 people were employed on the balance sheet date of 31 December 2010.

4.6. Depreciation and Amortization

This item exclusively covers scheduled depreciation on property, plant and equipment and the amortization of intangible assets.

4.7. Other Operating Expenditure

This item largely covers legal and advisory costs, advertising and travel expenses, office and operating costs or administrative and sales expenditure.

4.8. Financial Results

EUR	2010	2009
Interest income	178,242.15	259,196.04
Interest expenditure	−306,046.89	−115,813.31
Total	**−127,804.74**	**143,382.73**

4.9. Income Taxes

EUR	2010	2009
Current tax liabilities	1,632,937.15	1,763,242.08
Deferred tax liabilities	202,763.52	−247,471.16
Total	**1,835,700.67**	**1,515,770.92**

The deferred taxes were based on a tax rate of 29.1% for Germany and 24.0% for the Czech Republic.

The deferred taxes are included in the following items:

EUR	31.12.2010 Assets	31.12.2010 Liabilities	31.12.2009 Assets	31.12.2009 Liabilities
Fixed assets	0.00	1,456.50	0.00	0.00
Intangible assets	0.00	734,070.60	0.00	567,812.07
Provisions for guarantees	0.00	3,033.28	0.00	0.00
Provisions for pensions	77,292.60	0.00	1,159.08	0.00
Accounts Receivable from Ongoing Work	60,783.63	170,900.66	37,286.40	0.00
Intangible assets acquired through the Solquest purchase (goodwill and customer relations)	390,523.71	0.00	351,269.00	0.00
Total according to balance sheet	**528,599.94**	**909,461.04**	**389,714.48**	**567,812.07**

Deferred tax claims / liabilities result from:

EUR	31.12.2010 Initial balance	31.12.2010 Recognized as earnings	31.12.2010 Final balance	31.12.2009 Initial balance	31.12.2009 Recognized as earnings	31.12.2009 Final balance
Fixed assets	0.00	−1,456.50	−1,456.50	0.00	0.00	0.00
Provisions for pensions	1,159.08	76,133.52	77,292.60	2,426.53	−1,267.45	1,159.08
Provisions for guarantees	0.00	−3,033.28	−3,033.28	0.00	0.00	0.00
Intangible assets – in-house developed software	−567,812.07	−166,258.53	−734,070.60	−443,405.05	−124,407.02	−567,812.07
Intangible assets acquired through the Solquest purchase (goodwill and customer relations)	351,269.00	39,254.71	390,523.71	0.00	351,269.00	351,269.00
Accounts Receivable from Ongoing Work	37,286.40	−147,403.44	−110,117.04	15,409.77	21,876.63	37,286.40
Total	**−178,097.59**	**−202,763.52**	**−380,861.11**	**−425,568.75**	**247,471.16**	**−178,097.59**

Tax expenditure for the fiscal year can be transferred to the profits for the period in the following way:

Transfer of tax expenditure/EUR	2010	2009
Pre-tax earnings	6,306,759.74	5,032,941.18
Anticipated tax expenditure 29.1%	1,835,267.08	1,464,585.88
Tax impact on non-deductible company spending	433.59	12,061.35
Tax impact on tax-free income	0.00	0.00
Other tax effects	0.00	39,123.68
Actual tax expenditure	1,835,700.67	1,515,770.92
Effective tax rate	**29.1%**	**30.1%**

4.10. Earnings per Share

The earnings per share are determined as a quotient from the consolidated annual net income and the weighted average of the number of shares in circulation during the business year. The average number of issued shares during fiscal 2010 was 1,668,767 (1,665,000 in the previous year). The consolidated annual net income on the balance sheet date amounted to tEUR 4,471 (tEUR 3,517 on 31 December 2009). As a result, the earnings per share amounted to EUR 2.68 (EUR 2.11 on 31 December 2009). The share option program dilutes the earnings to EUR 2.68 and is therefore the same as the undiluted earnings per share. There were no shares outstanding on 31 December 2009.

4.11. Use of Profits

The Management Board is intending to suggest to the 2011 annual shareholders' meeting that a dividend of EUR 0.50 should be paid from the balance sheet profits at GK SOFTWARE AG (EUR 3,996,780.07) determined in line with German commercial law rules and the remaining amount should be carried forward to the new account. As 1,790,000 shares are in circulation, the company will have to make dividend payments amounting to EUR 895,000.00 to its shareholders, if the annual shareholders' meeting approves this proposal.

5. Notes on the Cash Flow Statement

Cash and cash equivalents have been entered in accordance with IAS 7.6.

6. Segment Reporting

The SQRS product line joined the main software solution marketed by the Group – GK/Retail – when the company took over the operating business of Solquest GmbH in 2009; dedicated resources ensure that the former product is available in the market place.

The key components requiring controlling include the segment sales with third parties and the total operating performance of a segment and its earning power, which is determined on the basis of the results for financial yields and income taxes (EBIT).

The group sells its GK/Retail and Solquest Retail Solutions (SQRS) products within a licensing framework and provides introductory and adjustment services and services related to servicing these products. The company also sells hardware for store IT solutions to a limited degree, but this is manufactured by third parties. The subdivision of sales according to fields of work is part of the reporting process.

A subdivision of sales in terms of products and fields of work provides the following general view:

	GK/Retail		SQRS		Eliminations		Group	
K EUR	2010	2009	2010	2009	2010	2009	2010	2009
Sales with third parties	**24,380**	**21,372**	**3,310**	**1,905**	**–**	**–**	**27,690**	**23,277**
Licenses	7,981	6,598	296	158	–	–	8,277	6,756
Servicing work	5,461	4,839	1,490	858	–	–	6,951	5,697
Services	10,335	9,196	1,417	810	–	–	11,752	10,006
Other matters	631	752	119	79	–	–	750	831
Revenue reductions	−28	−13	−12	0	–	–	−40	−13
Sales with the other segment	**1,615**	**1**	**0**	**394**	**−1,615**	**−395**	**–**	**–**
EBIT segment	**5,379**	**5,488**	**1,056**	**499**	**0**	**−1,097**	**6,435**	**4,890**
Assets	**44,309**	**30,168**	**2,861**	**2,984**	**−2,365**	**−777**	**44,805**	**32,375**
Cash and cash equivalents	**11,802**	**10,356**	**1,640**	**281**	**–**	**–**	**13,442**	**10,637**

Depreciation/amortization of tEUR 1.256 accumulated for the GK/Retail segment and tEUR 292 for SQRS. The company is standing by its decision to no longer sell the SQRS software solutions in the future, in order to streamline the Group's product portfolio.

Work based on servicing contracts, which are determined by the normal segment revenues in their outside markets, were charged between the segments. Administrative work is accounted for on the basis of general service contracts. The amount accounted for corresponds to the original costs of providing the administrative work based on our experience of estimating the time involved.

The company achieved sales amounting to tEUR 3,619 with customers that have their headquarters outside Germany. The share of sales from the SQRS business area amounted to tEUR 428. In addition, there were sales with customers, which have their headquarters in Germany, but which asked the company to render accounts to the relevant national companies receiving the services. These sales amounted to tEUR 342, but are valued as domestic sales because of the contractual basis and were fully assigned to the GK/Retail business area.

Sales with customers, which have a share of sales of more than 10%, were achieved and amounted to approx. tEUR 10,748 or 38.8% of the total sales in fiscal 2010. These sales related to the GK/Retail segment

7. Other Information

7.1. Financial Instruments

The financial instruments include original and derivative financial tools.

The original financial instruments largely comprise accounts receivable on the assets side, the other financial assets and financial resources. On the liabilities side, the original financial instruments largely contain the liabilities assessed at ongoing acquisition costs. The portfolio of original financial instruments is shown on the balance sheet. If any default risks are recognizable within the financial assets, these risks are entered by means of write-downs.

Two investment loans were taken out from the Commerzbank AG Plauen during fiscal 2007 (original amounts: tEUR 750 and tEUR 450). The interest payments for the two investment loans are secured by an interest rate ceiling mechanism in the form of a cap. This security mechanism has a term until 30 June 2012 and is secured using a cap rate of 5.2% p.a. An interest rate ceiling mechanism was agreed with a maximum rate for the loan from the Commerzbank from ERP funds amounting to tEUR 180. This security mechanism has a term that runs until 30 September 2019 with a cap rate of 4%.

The market value of these interest capping mechanisms on a nominal volume of tEUR 1,011 – derived from the mid-market price – amounted to a total figure of EUR 1,672.99 on the balance sheet date. All the capping mechanisms had a positive market value.

The conversion of the balance sheet items to assessment categories in line with IAS 39 can be shown as follows:

IAS 7.8	Categories	Balance Sheet Items	Amount K EUR	Previous year Amount K EUR
a)	Financial Assets Assessed on the Balance Sheet at Fair Values	N/A	–	–
b)	Financial Investments to be Retained until Final Due Date	N/A	–	–
c)	Loans and Accounts Receivable	Trade accounts receivable, accounts receivable from ongoing work, part sum for other accounts receivable according to individual statement in no. 3.6 (accounts receivable from Management Board members; loans made available to third parties)	17,459	8,321
d)	Financial Assets Available for Sale	N/A	–	–
e)	Financial Liabilities Assessed on the Balance Sheet at Fair Values	N/A	–	–
f)	Financial Liabilities Assessed at their Residual Carrying Amount	Non-current and current bank liabilities, accounts payable, part sum for current provisions according to individual statement in no. 3.13 (human resources department, other departments), part sum for other liabilities according to no. 3.17 (Liabilities from wages and salaries, other liabilities towards employees, liabilities from the acquisition price for the operating business of Solquest GmbH)	8,164	9,562

The financial assets of GK SOFTWARE are subject to a write-down of tEUR 200 (tEUR 186 in the previous year) on 31 December 2010. Of this sum, tEUR 90 (tEUR 148 in the previous year) applies to individual write-downs of accounts receivable. Write-downs of tEUR 121 (tEUR 38 in the previous year) applied to the blanket write-downs on trade accounts receivable.

The assessment categories in IAS 39 provide the following: "Other Earnings" and "Other Expenditure." We have entered here write-downs, revaluations (write-ups, amortization of write-downs), completed disposals and subsequent entries from depreciated financial instruments.

The group only has the financial instruments entitled loans and accounts receivable and financial liabilities, which have been valued at their carrying amounts.

The following gains and losses have emerged in relation to these categories:

Loans and Accounts Receivable	K EUR	Previous year K EUR	Reference
Write-ups for Amortized Accounts Receivable	164	35	Notes No. 4.3
Expenditure from the Allocation of Write-ups	−200	−186	
Balance	−36	−151	
Financial Liabilities Valued at Residual Carrying Amounts	N/A	N/A	N/A

Revaluations expected to have a neutral effect on the results are omitted on the grounds of the assessment categories at hand.

The maximum default risk for the financial assets corresponds to their gross carrying amount minus write-downs, therefore leaving the net carrying amount that is shown. As a result, the circumstances at GK SOFTWARE correspond to what IASB assumes to be the normal case (IFRS 7.B9). Securities and other risk-reducing understandings do not need to be considered at this point.

The amount of trade accounts receivable due on 31 December 2010 amounted to tEUR 1,761 (2009: tEUR 1,412). Of this figure, accounts receivable amounting to tEUR 278 (2009: tEUR 401)were overdue by more than 30 days.

The remaining financial claims were not fully due for payment by the balance sheet date.

The accounts receivable that are overdue by more than 30 days do not provide any reason for write-downs in their intrinsic value. The generally high degree of payment practices in the retail sector has almost completely enabled the company to avoid default situations during its corporate history. The customers have not issued any formal complaints with regard to the overdue accounts receivable, which would signify that they wished to contest them.

The total amount of the value adjustments was in the order of tEUR 200.

The due dates for financial liabilities, which need to be shown, concern the loans taken out by the company. The remaining financial liabilities (mainly accounts payment and payments to employees) have very short remaining terms of less than 3 months – in line with normal practice.

The company had taken out the following loans by 31 December 2010:

loan from the KfW Bank has a term until 30 September 2017 and is being repaid with an annual installment of tEUR 625. No installments have to be paid on the loan from the DZ Bank, which has a term until 1 October 2019, until 1 January 2012 and it will then be repaid on schedule with installments of EUR 93.500.

The interest payments for the two investment loans are secured by means of a maximum rate agreement (cap). The hedging mechanism has a term until 30 June 2012 and is secured with a capping rate of 5.2%.

Quantitative information on risk exposure has not been included, as it was not possible to identify these kinds of risks. This is made clear by a subdivision into individual risk classes:

Loan default risks. The maximum loan default risk, as shown above, corresponds to the carrying value of the financial assets. The Management Board, however, does not expect any loan defaults, which are not covered by the write-downs, because of its experience and ongoing contacts with debtors (customers).

Liquidity risks. In the light of the group's liquidity situation and its negative debt (surplus of cash and cash equivalents over liabilities with banks and other interest-bearing liabilities), the Management Board has not identified any liquidity risks. If we look at the major market risks for GK SOFTWARE

Loan	Amount EUR	Value (EUR) 31.12.2010	Value (EUR) 31.12.2008
Investment loan with the Commerzbank Plauen:	750,000.00	487,500.00	562,500.00
Investment loan with the Commerzbank Plauen:	450,000.00	371,250.00	393,750.00
ERP loan from the Commerzbank Plauen:	180,000.00	157,500.00	175,500.00
Loan from the KfW, Frankfurt:	5,000,000.00	4,218,750.00	4,843,750.00
Loan from the DZ-Bank:	748,000.00	748,000.00	748,000.00
	7,128,000.00	5,983,000.00	6,723,500.00

The investment loans with the Commerzbank Plauen will be repaid on schedule with constant installments by 30 June 2017 (annual repayment of tEUR 75) and 30 March 2027 (annual repayment of EUR 22,500). The KfW-Commerzbank loan from ERP funds has a term until 30 September 2016 and is being repaid with an annual amount of tEUR 18. The

separately, the currency risk and the interest risk, the following picture emerges:

Market risks:

- Currency risks: The Company only has a small amount of foreign currency accounts receivable and payable in CZK. They are specified in the annex and under no. 3.3., 3.6., 3.14. and 3.17. As a result, the company does not believe it is necessary to report any foreign currency risks.

- Interest risks: With the exception of the loans that have been taken out, all the financial instruments are current. There are therefore no interest risks that need to be reported. Interest of Three-Month EURIBOR +1.8 percentage points is payable on the investment loans taken out at the Commerzbank Plauen before 1 January 2009. For commercial reasons, the loans have been hedged using interest ceiling mechanisms, as reported above. No security has been provided for the loans taken out during fiscal 2009 on account of the current capital market situation. But the situation is being constantly monitored.

The assessment of the market risks provides the following picture: Currency risks could only result from exposure to the Czech crown and they are restricted to section 3.3 (Trade Accounts Receivable amounting to tEUR 10), section 3.6 (Other Accounts Receivable and Assets amounting to tEUR 139), section 3.14 (Trade Accounts Payable amounting to tEUR 15) and section 3.17 (Other Current Liabilities amounting to tEUR 276). This assessment was made on the balance sheet date at an exchange rate of CZK 25.1889 for one euro. A change in this exchange rate by one percent changes the value of these assets and liabilities by nearly tEUR 2 on the balance sheet. This only has an effect on the assessments of the inflow and outflow of cash and cash equivalents, which take place in Czech crowns, as the assets and liabilities in Czech crowns exist and are paid using Czech crowns. In the light of this and because these changes in value have a neutral effect ton equity capital, the company did not carry out a sensitivity analysis.

The interest risks are the result of the agreed interest payments in loan contracts. There is no link here with the currency risk, because the loans have been listed in euros. Interest payments amounting to tEUR 306 were made during the current year and entered on the balance sheet. The interest rate from the KfW loan agreement covering tEUR 5,000 was fixed until 30 September 2012 and the rate for the DZ Bank is fixed throughout the whole term, so there are no interest risks linked to these loans. The interest for the investment loans with the Commerzbank worth tEUR 750 and tEUR 450 are fixed quarterly at a rate 1.8 percentage points above the Three-Month EURIBOR. The interest risk has been restricted by interest capping mechanisms set at 5.2%. The interest rate for the loan from Commerzbank Plauen of tEUR 180 is also set quarterly at a rate of 1.5 percentage points above the Three-Month EURIBOR. An interest capping mechanism restricts the risk here to a term with 4%. If the Three-Month EURIBOR rate changed by one percentage point, this would result in a change in the interest payments of tEUR 9 in fiscal 2010 (determined using the actual interest burden in fiscal 2010 and changing the interest rate).

Based on the type of financial instruments used, there are no **other risks.**

7.2. Contingent Liabilities

Contingent liabilities on the one hand present possible obligations, but their existence is only confirmed if one or several uncertain future events actually take place and there is no possibility of exercising complete control over these factors. On the other hand, the term also covers existing obligations, which will probably create no outflow of assets. According to IAS 37, contingent liabilities are not entered on the balance sheet.

One credit by way of bank guarantees amounting to tEUR 19 as far as contingent liabilities is concerned and this loan is granted by Volksbank Vogtland e.G. The guarantee is part of the normal collateral for leasing payments at the Berlin office and is secured by the pledging of cash deposits. The Management Board does not expect it to be necessary to make use of the guarantee.

7.3. Operating Leasing Agreements

The operating leasing agreements relate to vehicle leasing arrangements. The payments entered as expenditure for fiscal 2010 amount to tEUR 436.

Payment obligations from operating leasing contracts amounting to tEUR 587 (tEUR 334 are due for payment within one year and tEUR 253 within five years) exist. There are no finance/leasing agreements.

7.4. Subsidiaries

Name of the subsidiary	Headquarters	Capital share	Voting rights share	Main business
		%	%	
EUROSOFTWARE s.r.o.	Plzen/Czech Republic	100.0	100.0	Software development, software programming
GK Soft GmbH	Zurich/Switzerland	100.0	100.0	Software development, software programming
StoreWeaver GmbH	Riehen/Switzerland	100.0	100.0	Software development, software programming
SQ IT-Services GmbH	Schöneck	100.0	100.0	Software development, software programming
1. Waldstraße GmbH	Schöneck	100.0	100.0	Software development, software programming

All the companies have been fully consolidated in these annual accounts.

7.5. Details of Associated Persons and Corporations

All the transactions with associated persons and corporations are being handled using normal market conditions. Expenditure for write-downs or irrecoverable claims from associated persons were not necessary or did not exist.

Business deals between GK SOFTWARE AG and its consolidated subsidiaries have been eliminated as part of the consolidation process.

Parent Company

The direct parent company is GK Software Holding GmbH, Schöneck. Expenditure to a small degree was incurred on behalf of this company, but was then repaid (tEUR 6.2). No other business relations existing during fiscal 2010.

Management Board

The following people are members of the Management Board:

- Mr. Rainer Gläß, Schöneck, CEO, Dipl.-Ingenieur
- Mr. Stephan Kronmüller, Schöneck, CTO, Dipl.-Ingenieur
- Mr. Ronald Scholz, Rodewisch, COO, Dipl.-Ingenieur
- Mr. André Hergert, Hamburg, CFO, Dipl.-Kaufmann

The total remunerations of the members of the Management Board in fiscal 2010 amounted to tEUR 1.535.

The members of the Management Board directly held the following shareholdings in GK SOFTWARE AG on 31 December 2010:

Mr. Rainer Gläß	52.792 shares	2.95%
Mr. Stephan Kronmüller	37.500 shares	2.09%
Mr. Ronald Scholz	12.300 shares	0.69%

In addition to this, Mr. Gläß and Mr. Kronmüller each indirectly held 468,350 shares through GK Software Holding GmbH on 31 December 2010.

Supervisory Board

The following people are members of the Supervisory Board:

- Mr. Uwe Ludwig, Neumorschen, management consultant, Chairman of the Supervisory Board
- Mr. Heinrich Sprenger, Iserlohn, entrepreneur
- Mr. Thomas Bleier, Oelsnitz, businessman

The total earnings of the Supervisory Board at GK SOFTWARE AG in fiscal 2010 amounted to tEUR 40 (tEUR 40 in the previous year).

No agreements exist between members of the Supervisory Board and the company, which envisage severance payments or other benefits for the members of the Supervisory Board when they finish their membership of this body. There are no conflicts of interest between their obligations towards the company and their private interests or other obligations at the moment.

There are no agreements with the company regarding pensions for the members of the Supervisory Board.

Accounts receivable from associated corporations and persons:

tEUR	31.12.2010	31.12.2009
Loans to members of the Management Board	0	86
Loans to associated companies, which are not part of the consolidated group	1,597	1,514
Other Accounts Receivable from the Management Board	13	11
Total	**1,610**	**1,611**

The loan was granted for an unlimited period and interest of 4% is being charged. It can be terminated with a period of notice of three months to the end of any year. Salary claims from Mr. Rainer Gläß and Mr. Stephan Kronmüller to GK SOFTWARE AG serve as collateral for the loans.

7.6. Auditor's Fee

Audit fees amounting to tEUR 64 and other services amounting to tEUR 60 are included in the annual audit of the accounts and consolidated accounts for 2010. The fee for accountancy services amounted to tEUR 71.

7.7. Statement of Compliance

The declaration on the Corporate Governance Code according to Section 161 of the German Stock Companies Act has been submitted and has been published on the company's home page at http://investor.gk-software.com at section "Corporate Governance".

7.8. Information after the Annual Accounts Reporting Date

Information about circumstances, which were available at the annual accounts reporting date, was taken into account if the Management Board found out about this by 6 April 2011.

Schöneck, 6 April 2011

The Management Board

Assurance by the legal representatives

We guarantee to the best of our knowledge that the consolidated accounts present a realistic view of the actual circumstances in the assets, financial and earnings situation at GK SOFTWARE AG in line with the relevant accounting principles and that the consolidated annual report reveals the course of business including the business results and the situation within the consolidated group in such a way that it communicates a view, which reflects the actual circumstances, and describes the main opportunities and risks for probable developments at the company.

Schöneck, 12. April 2011

The Management Board

Rainer Gläß
(CEO)

Stephan Kronmüller
(CTO)

Ronald Scholz
(COO)

André Hergert
(CFO)

Audit Opinion

The translation of the auditor's certificate relates to the German version of the consolidated accounts

We have audited the consolidated accounts of GK SOFTWARE AG, Schöneck – which consist of the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes on the consolidated accounts – in addition to the consolidated annual report for the business year from 1 January until 31 December 2010. The company's Management Board is responsible for compiling the consolidated annual accounts and the consolidated annual report in line with the International Financial Reporting Standards (IFRS) to match EU practice and the additional commercial law regulations as set out in Section 315 a, Paragraph 1 of the German Commercial Code. It is our task to provide an appraisal of the consolidated accounts and the consolidated annual report when we carry out our audit.

We have carried out our audit of the consolidated accounts in line with Section 317 of the German Commercial Code, taking into consideration the German principles for the proper auditing of accounts laid down by the German Institute of Auditors.

According to these, the audit must be planned and carried out in such a way that any errors and infringements, which would have a major effect on the presentation of the asset, financial and earnings situation, which is communicated by the consolidated accounts – taking into consideration the accounting principles that need to be used – and the consolidated annual report, will be recognized with sufficient certainty. When defining the auditing work, the auditors take into account their knowledge of the business involved, the group's economic and legal framework and their expectations of possible errors. During the audit, the effectiveness of the internal control system related to the accounts and evidence of the information provided in the consolidated accounts and consolidated annual report are mainly assessed by using random inspections. The audit includes an appraisal of the annual accounts of the companies included in the consolidated accounts, the definition of the companies to be included in the consolidation, the balance sheet and consolidation principles that are used, the major estimates provided by the Management Board and an appraisal of the complete presentation of the consolidated accounts and consolidated annual report. We believe that our audit provides sufficiently certain grounds for our assessment.

Our audit did not lead to any objections.

In our opinion, which is based on the knowledge that we have gained through the audit, the consolidated accounts of GK SOFTWARE AG, Schöneck, meet the demands of the IFRS, as they are to be applied in the EU, and also the commercial law regulations that are to be used according to Section 315 a of the German Commercial Code. They therefore provide a picture of the group's assets, finances and earnings, which reflects the real circumstances. The consolidated annual report is consistent with the consolidated accounts and overall provides an appropriate picture of the situation in the group and adequately illustrates the opportunities and risks of future developments.

Dresden, 12 April 2011

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Karmann)	(ppa. Kahlert)
Auditor	Auditor

Imprint/Notes

Imprint

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Notes

Note to the Annual Report

This Annual Report is the English translation of the original German version. In case of deviations between these two the German version prevails. This Annual Reports is in both languages can be downloaded at **http://investor.gk-software.com**.

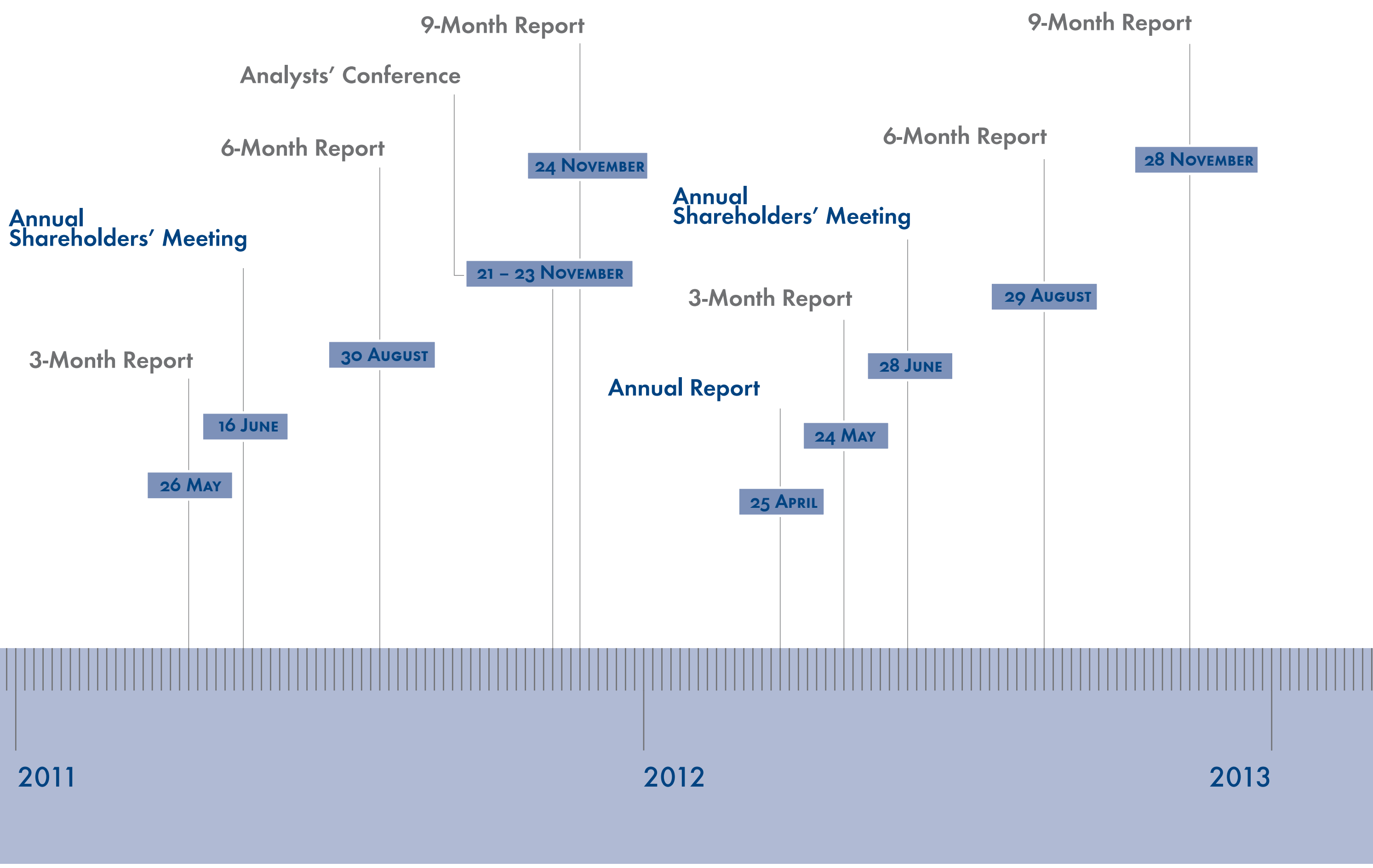
Note regarding the rounding of figures

Due to the commercial rounding of figures and percentages small deviations may occur.

Disclaimer

This annual report includes statements concerning the future, which are subject to risks and uncertainties. They are estimations of the Board of Management of GK SOFTWARE AG and reflect their current views with regard to future events. Such expressions concerning forecasts can be recognised with terms such as “expect”, “estimate”, “intend”, “can”, “will” and similar terms relating to the Company. Factors, which can have an effect or influence are, for example (without all being included): the development of the retail and IT market, competitive influences including price changes, regulatory measures and risks with the integration of newly acquired companies and participations. Should these or other risks and uncertainty factors take effect or should the assumptions underlying the forecasts prove to be incorrect, the results of GK SOFTWARE AG could vary from those, which are expressed or implied in these forecasts. The Company assumes no obligation to update such expressions or forecasts.

Financial Calendar



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