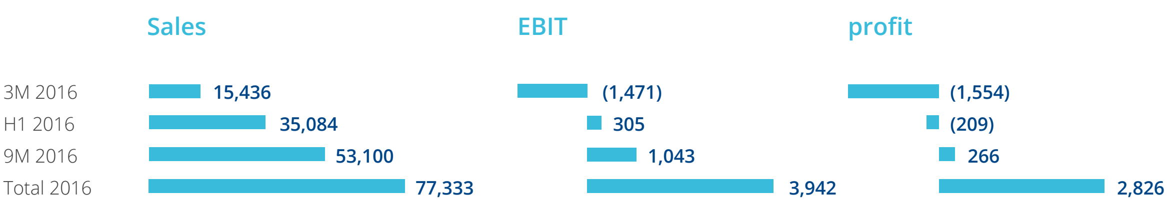
Annual Report 2016

Simply Retail.

Summary of Consolidated Results

		31.12.2016	31.12.2015	31.12.2014	Change (2015/2016)
Sales	EUR K	**77,333**	62,602	44,634	23.5 %
Operating performance	EUR K	**77,714**	63,127	45,146	23.1 %
Total operating revenue	EUR K	**79,483**	64,853	47,333	22.6 %
EBIT	EUR K	**3,942**	(1,276)	(3,015)	—
EBIT margin (on sales)	%	**5.1**	(2.0)	(6.8)	—
EBIT margin (on total operating revenue)	%	**5.0**	(2.0)	(6.4)	—
EBITDA	EUR K	**7,803**	2,177	37	>250 %
EBT	EUR K	**3,452**	(1,383)	(2,987)	
Net profit / loss for the year	EUR K	**2,826**	(1,500)	(1,870)	—
Earnings per share (weighted)	EUR	**1.50**	(0.79)	(1.65)	—
Earnings per share (diluted)	EUR	**1.44**	(0.79)	(1.64)	—
Equity ratio	%	**44.2**	42.7	68.1	—
Net debt	EUR K	**8,746**	7,346	(12)	19.1 %
Employees		**911**	739	618	23.3 %

Development by quarter (EUR K)



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A

To the Shareholders

Letter from the Management Board

Dear shareholders,

We would like to take this opportunity of presenting you with the annual report for GK Software[1] in 2016 and we are delighted to be able to inform you that the year was dominated by a huge improvement in all the important key performance indicators. This is reflected both in the significant increases in our turnover and also in the clear increase in profits. For example, we were able to expand our turnover by 23.5 percent to a figure of EUR 77.33 million during the past financial year; the figure in the previous year was EUR 62.60 million. The EBITDA improved to EUR 7.80 million, following a figure of EUR 2.18 million in the previous year. This created an EBIT of EUR 3.94 million (previous year: EUR (1.28) million) and this corresponded to the upper end of our expectations. The annual surplus amounted to EUR 2.83 million in

1 – The expression GK Software always refers to the corporate Group in the following text. "The Company" is also used as a synonym. When GK Software AG is used, this exclusively refers to the individual company.

the past financial year, after a loss of EUR (1.50) million was recorded in the previous year. This result corresponds to earnings per share of EUR 1.50.

Our growth during the year was particularly based on services and licences, although the increase in services revenues was particularly striking, rising by 38.3 percent to EUR 41.05 million. This is significantly reflected in the growing number of new projects, which were handled alongside each other, and the improvements in follow-up business with existing customers. Turnover for licences also set a new record at EUR 12.39 million; the GK/Retail new business contributed EUR 11.58 million to this figure and the IT Services business EUR 0.91 million. As our cloud solution OmniPOS was the only product sold in the GK/Retail business in 2016, the competitiveness of our new solution is evident in these figures; it was only launched at the large trade fairs at the beginning of the year. We are therefore convinced that this solution will cover the needs of the market to a large degree and enable us to achieve a significant advantage over our rivals. The eight new projects, which we were able to gain in 2016 in conjunction with SAP, particularly the major project with Aldi Nord, one of the largest retailers in the world, also demonstrate this. Other projects at large and medium-sized retailers in Germany, Switzerland, the USA or Central America will help further increase the number of reference projects for OmniPOS during 2017. We were particularly delighted to note that it was possible to completely roll out the first OmniPOS project for a retailer with stores in Great Britain and Ireland as early as the autumn of 2016. The pilot installations took place at four other customers in the USA, Switzerland and Germany at the beginning of 2017 and the start of the rollout process will follow during the course of the year. This has enabled us to continue to strengthen our position in the European market and also create the necessary references in order to achieve our growth goals in North America. According to a study by RBR, we have a market share of almost ten percent and are playing a leading role in Europe as a whole and we are the market leader in Central and Eastern Europe with approx. 15 percent.[2] We will continue to strengthen our position in the short time too through the pending rollouts in several large-scale projects.

The 2016 financial year illustrated once again that the strategic partnership with SAP is ideally suitable for implementing our internationalisation and growth strategy. This partnership has now proved its worth in more than 40 joint projects on four continents and is not only characterised by close cooperation in the sales of solutions, but also through intense cooperation in the fields of research and technology. One example of the way that we are permanently strengthening our partnership has been the inclusion of our Central Pricing Engine, which we have further developed in close cooperation with SAP, in SAP's range of solutions. Several retail companies opted for the centrepiece of omni-channel concepts, which is sold as an SAP solution, during the 2016 financial year. We are delighted to continue and reinforce this close and very successful cooperation with SAP, as it is permanently opening up new potential for the Company.

2 – EHI Retail Institute, Study: Global POS Software 2016, London 2016

We took over TOV Eurosoftware-UA in Lviv as a wholly owned Group subsidiary at the beginning of the year in order to place our development resources on a much broader footing. The new subsidiary employed about twenty people at the end of 2016 and they are mainly working on project development. The experience of the past year has shown that Lviv in Western Ukraine is an outstanding place for gaining well-trained specialist staff.

The research and development work was dominated by the ongoing development of OmniPOS and other solutions for omni-channel retailing during the whole of the 2016 financial year. They include, for example, a self-scanning solution, which can also be used on customers' smartphones, or a pick&pack solution for picking shopping baskets, which are ordered on the Internet and then collected at a shop or a pick-up store. We also continued to press ahead with integrating our solution world in that of SAP so that we are even more closely involved in topics like HANA, CAR or hybris. Our solutions once again successfully underwent premium qualification by SAP in the spring of 2016 and this guarantees that the latest versions of our solutions are approved for sale by SAP.

We were able to expand our installation base by about another 10,000 units during the reporting period, so that 223,400 systems are now in productive use in 42 countries (checkouts, mobile devices, servers). As in previous years, almost all our existing projects continue to generate further revenue. This occurs with great regularity, as our customers have to permanently adapt their solutions to new requirements in their business by expanding into new countries, developing new sales concepts or implementing omni-channel requirements.

The GK Academy trained more partners in the field of our partner business during the 2016 financial year and completed many certifications of hardware. Overall, employees from 12 other implementation partners were trained and they will bear responsibility or partial responsibility in selected projects. The GK Academy is an important building block for us to prepare our international partner network for supporting us with high quality in introducing projects in the international market.

We continue to be confident that we will continue our growth course in 2017 and beyond too. We are observing a constantly increasing demand for our market-leading new solutions and continue to have a well-filled sales pipeline. We assume that we will continue to be successful in our sales work, primarily with SAP, and our intensive discussions with potential customers from Germany and abroad will bear fruit. We believe that we are in an excellent position in several ongoing tender procedures and we are also expecting further growth from our business with existing customers and will therefore be able to also improve our profitability in this field.

In line with our medium-term forecast issued in 2015, we are planning to return to an earnings margin (EBIT margin on operating performance) of more than 15 percent for our core business and then maintain this figure. We are standing by our assessment made in previous years that expenditure for tapping into new markets, a postponement of fairly large customer projects or a deterioration in the overall economic situation could impair this development. We are expecting considerable expansion in turnover in the GK/Retail sector in 2017 too. In the light of the turnover of EUR 77.33 million achieved in 2016, it is possible, if the general conditions prove ideal, that we could almost reach our target set for 2018 - an increase of fifty percent over 2015 (EUR 62.60 million) one year earlier.

We are delighted that you are supporting GK Software AG and its pathway of growth and we would like to thank you for placing your ongoing trust in the Company.

Schöneck, 27 April 2017

The Management Board

Rainer Gläss
Chief Executive Officer

André Hergert
Head of Finance and Human Resources

Report by the Supervisory Board

Dear shareholders,

The report by the Supervisory Board for the 2016 financial year at GK Software AG, which I am able to present to you here, once again relates to a year that has been really successful, as progress was made, not only in terms of a considerable improvement in turnover, but in profits too. Overall, the desired development in a continuation of the extremely successful years since the flotation on the stock exchange with repeatedly good results has set in again. However, the tough phases in the meantime have made it clear to us that success is not automatic and that great efforts are required to return to the pathway of success. Although considerable progress was made along this pathway in 2015, the results were not yet satisfactory. It was only during the course of the year, which we are reporting about today, that everything pointing to the turnaround, which we were seeking, would actually set in and enable us to fulfil our expectations in this regard. Fortunately, confirmation of this continued during the remaining months of 2016.

Composition of the Supervisory Board

In accordance with the articles of association, the Supervisory Board consists of three members. In 2016, they were:

- Uwe Ludwig (Chairman)
- Thomas Bleier (Deputy Chairman) and
- Herbert Zinn.

Mr Ludwig and Mr Zinn have been appointed until the end of the annual shareholders' meeting in 2020, while Mr Thomas Bleier's appointment will terminate with the conclusion of the 2019 annual shareholders' meeting.

Meetings

The Supervisory Board held its ordinary meetings on 29 February, 25 April, 29 August and 29 November 2016. Several telephone conferences were held during 2016, when major decisions were about to be taken. The Supervisory Board also held a separate closed session meeting in order to not only discuss where a business site should be located, but also measures that would need to be adopted if the change for the better, which had been initiated, did not occur contrary to expectations.

All members of the Board were present at all the ordinary meetings and conferences. It is customary practice at GK Software AG that the representatives of the Management Board are always involved in the meetings. Beyond these meetings, the members of the Supervisory Board were also regularly in contact with each other and with the Management Board and the members of the Group Management Board, particularly through the Chairman of the Supervisory Board. Decisions were made during meetings or by a circulation procedure. During its meetings, the Supervisory Board was briefed in detail about the Company's economic and financial situation and the fundamental corporate policy by means of verbal and written reports from the Management Board. In addition to this, the Management Board reported on the course of business by providing interim reports at regular intervals and promptly forwarded the minutes of the Group Management Board meetings.

Functions of the Supervisory Board

During the 2016 financial year, the Supervisory Board fulfilled the tasks incumbent upon it according to the law, the articles of association, the recommendations of the government's "German Corporate Governance Code" commission and the Supervisory Board's revised rules of internal procedure; and it continually monitored the Company's managers.

The urgent issue involved stabilising the changes in the structure and process organisation of the Company, following the personnel changes on the Management Board. The restructuring of the Management Board from four to just two members, which was completed in 2013, with a Group Management Board beneath it has continued to prove beneficial and suitable for reaching these goals.

Following its initial phase, the process initiated from the second half of 2015 onwards in close cooperation between the Management Board and the Supervisory Board demonstrated recognisable improvements and they represent a foundation for the expected positive developments in future. What is essential for the ongoing development of the Company is particularly that Mr Jaszczyk can continue to press ahead with the development of the North American business and can also play an important role in developing our products as CTO.

The ongoing development and adaptation of the risk management systems is a matter that has been urgently pursued by the Supervisory Board for years. As a result, the Supervisory Board called for reports on the progress of the implementation of the security concept, which has now been extended once again, and on the further establishment of formalised administrative processes, revised procedures in the controlling department and the work of the data protection officer. The Supervisory Board welcomed the progress achieved and the fundamental revision of the planning processes, which were used for the first time for the annual planning work in 2015. It was also possible to continue refining them.

The Supervisory Board also fully focused on the appropriateness of the remuneration for members of the Management Board, particularly in the light of further reorganisation procedures. As in previous years, our attention was focused on the relationship between remuneration and the Company's economic situation and on the conditions prevalent at other companies, the comparison with the overall structure of remuneration within GK Software AG and the composition of fixed and variable salary components. After it had been established that, as in the previous year, there had been no significant deviations from the economic targets set for the 2016 financial year, the Supervisory Board only minimally reduced the variable salary components for the Management Board and Group Management Board members in one case and otherwise recognised the originally agreed amounts in terms of providing further motivation.

In order to monitor the management team, the Supervisory Board was guided by the annual budget passed for 2016 and called for reports from the Management Board particularly regarding the ongoing business policy and corporate planning, profitability, the course of business and important individual measures adopted by the Company. The Supervisory Board also received a number of additional reports on the development of business throughout the whole financial year. This was also the case after the middle of the year, when the expected positive development in the course of business became apparent with the envisaged goals for the business results. The Management Board supplied the Supervisory Board with information throughout the year both during and outside meetings and the Supervisory Board discussed these reports and examined them critically, particularly as they indicated the long anticipated positive results from the middle of the year onwards.

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 therefore in the best interests of shareholders and equity markets. The Management Board and Supervisory Board issued their annual declaration of compliance according to Section 161 of the German Companies Act in April 2017. 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 follow the recommendations of the German Corporate Governance Code as far as possible. A decision concerning GK was made on the legal stipulation to have equal representation of women and men in management positions on 31 August 2015 and this continues to apply. No conflicts arose in 2016 as regards conflicts of interest in the members of the Supervisory Board.

2016 annual audit

The GK Software AG annual accounts compiled by the Management Board in line with the guidelines set by the German Commercial Code and the IFRS Consolidated Accounts and the respective management report were audited by the auditing company, Deloitte & Touche GmbH, and were given an unqualified audit certificate. Taking into account these audit reports, the Supervisory Board examined the annual accounts compiled by the Management Board, the consolidated accounts, the dependency report, the management report for GK Software AG and for the Group and the suggestion for using the profits from the Management Board for 2016. During its meeting on 24 April 2017, the Supervisory Board asked the Management Board to explain the 2016 annual and consolidated accounts with their overall positive figures and report on profitability, the Company's equity, the interim course of business and the Company's ongoing situation. All the Supervisory Board members received the necessary documents prior to this meeting.

During the meeting, the auditors commented on the Management Board's presentation, explained the audit findings using the audit reports and answered all the questions on these reports. The auditors were able to satisfactorily answer all the issues that were mentioned during the meeting. There are no doubts about the auditors' independence. The Supervisory Board therefore approved the annual accounts for GK Software AG during its telephone conference on 27 April 2017 and approved the consolidated accounts for GK Software. The annual accounts have therefore been approved.

The Management Board also prepared a report on relations with associated firms in line with Section 312 of the German Companies Act. The auditors checked this and provided a verbal report on the results of their audit during the meeting on 24 April 2017. The review by the Supervisory Board did not give rise to any reasons for objections to be raised. Accordingly, it did not have any objections to the final declaration by the Management Board in its report according to Section 312 of the German Companies Act either and expressed it agreement by voting in favour during its telephone conference on 27 April 2017.

The Supervisory Board would like to thank the Management Board, the Group Management Board, the complete management team and all the employees for the work that they performed in 2016. It joins with them in recording its delight that a return to success in the Company's results has been achieved following the huge efforts made during the last two years. Its wish for all of them is that the further improvements sought for will be confirmed through their hard and successful work in the long term.

Schöneck, 27 April 2017

Uwe Ludwig
Chairman of the Supervisory Board

Corporate Governance Report

according to Section 289a of the German Commercial Code

GK Software views responsible and transparent performance as absolutely essential for its long-term economic value creation. Both the Management and Supervisory Boards have therefore issued the statutory statement of compliance according to Section 161 of the German Companies Act. Monitoring compliance with the statement is therefore viewed as an important task for the Management Board and the Supervisory Board. The statement is submitted every year and is available to the public on the internet at https://investor.gk-software.com in the "Corporate Governance" section.

Cooperation between the Management Board and the Supervisory Board

The Management Board and the Supervisory Board have been working together based on a relationship of trust for many years. The Management Board provides regular reports to the Supervisory Board about profitability and Group strategies and their implementation, but also about existing or possible risks. This is done during the scheduled Supervisory Board meetings, three of which were held during the past financial year, and also directly through regular monthly meetings with the Chairman of the Supervisory Board. Further information on this can be found in the Report by the Supervisory Board. Because it has just three members, the Supervisory Board did not form any committees. All the issues are discussed and decided upon by the full body. The Chairman of the Supervisory Board is solely authorised to conduct negotiations for human resources decisions related to the Management Board, but these negotiations must be approved by the whole body. There were no conflicts of interest among members of the Management and Supervisory Boards.

Transparency

GK Software chose to have its company flotation listed on the most stringently controlled segment of the German Stock Exchange, the Prime Standard section, in the summer of 2008. The highest possible degree of transparency towards its investors and all the other participants in the capital markets has been one of the most important Company principles from the outset.

The company will also appoint a voting proxy at the 2015 annual shareholders' meeting, who will allow shareholders to exercise their voting rights even if they cannot attend the annual shareholders' meeting. All public information such as compulsory notifications and press releases, the financial statements or the reports on the annual shareholders' meeting will be made available on the Company's website.

Risk management

The risk management system established by the Group is geared towards the needs of the Company. It is designed to help identify risks at an early stage and appropriately prevent or restrict any risks that occur. Please refer to the Group management report for further details.

Declaration of compliance

Section 161 of the German 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 state which recommendations have not been or are not being used.

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

The last annual declaration was submitted in April 2016 and relates to the version of the Code dated 5 May 2015. The future corporate governance practices at GK Software AG in the following declaration relate to the recommendations in the Code in its current version dated 7 February 2017.

On 24 April 2017, the Management and Supervisory Boards at GK Software AG declared that, since the release of the last annual declaration of compliance in April 2016, the recommendations of the "Government Commission on German Corporate Governance Code" had been met, apart from the exceptions noted in the declaration published in April 2016, and continue to be met with the following exceptions.

Code number 2.3.3 The Company will not provide any Internet broadcast of the annual shareholders' meeting, as the Management Board and Supervisory Board believe that this would not create a higher participation level at the annual shareholders' meeting.

Code number 4.1.5 The candidates for management positions will mainly be selected by the Management Board on the basis of their personal skills and abilities in the interests of the Company. Only after this will other objective background issues in the candidates like their age, place of origin or gender be taken into account in order to not generally restrict the interests of the Company. In setting the target rate for the share of women on the top management level below the Management Board, the Management Board will take into account the fact that this only involves four persons.

Code number 4.2.3 Variable elements of remuneration do not exclusively have an assessment basis lasting several years, because it should also be possible to set short-term goals.

Code number 4.2.4 The Company does not reveal 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 from normal practice was adopted not to reveal the individual salaries in the annual and consolidated accounts for 2015 - 2019, based on the qualified majority of three quarters of the equity capital represented at the annual shareholders' meeting at the annual shareholders' meeting on 29 June 2015 in line with Section 286 Paragraph 5 of the German Commercial Code and Section 314 Paragraph 2 Sentence 2 of the German Commercial Code.

Code number 4.2.5 Please refer to Code Number 4.2.4 regarding Code number 4.2.5.

Code number 5.1.2 The Supervisory Board will mainly take into account the personal suitability, which results from the individual skills and specialist expertise in the candidates, when filling vacant positions on the Management Board so as to not generally restrict the interests of the Company. Other criteria will only be taken into consideration after this. There is no age limit for members of the Management Board; GK Software AG feels that the professional qualifications of the members of the Management Board play a more important role. The Supervisory Board will particularly take into account the fact that the Management Board only consists of two members when setting the target size for the share of women on the Management Board.

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 due to the size of the board (the Supervisory Board consists of only three members), as the provision of consistent and extensive information for all members of the Supervisory Board can be guaranteed most efficiently in meetings where all the members of the Supervisory Board are present. Any issues can be handled and answered appropriately by the whole body. An auditing committee (number 5.3.2) has therefore not been set up either. The same applies to a nomination committee (number 5.3.3) and the other specialist committees (number 5.3.4). The issues normally incumbent on the specially appointed committees are handled by the complete board, as the board members have the necessary qualifications for this.

Code number 5.4.1 The composition of the Supervisory Board at GK Software AG is not decided by the Supervisory Board, but by 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 nominations for candidates submitted by the Supervisory Board to the annual shareholders' meeting will take into account the geographical distribution and the degree of complexity of the business activities at GK Software. Criteria such as the age, background or gender 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 particularly enrich the board as a result of their wide experience and their specialist qualifications are of great importance. For the same reason, there is no set limit for membership of the Supervisory Board either. The Supervisory Board will particularly take into account the fact that the Management Board only consists of two members when setting the target size for the share of women on the Management Board.

Code number 5.4.6 The remuneration for the members of the Supervisory Board exclusively takes place with fixed elements. No remuneration, which depends 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.

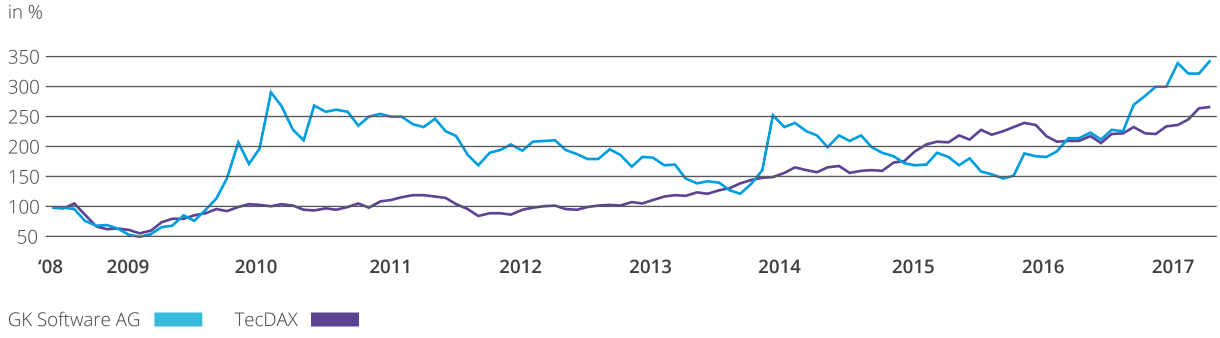
Code number 7.1.2 The consolidated accounts are not published within 90 days after the end of the financial year, but after four months in line with the current guidelines published by Deutsche Börse AG. The interim reports are not made available after 45 days, but after two months according to the current guidelines published by Deutsche Börse AG. GK Software AG believes that the periods of time set by Deutsche Börse AG are sufficient to provide shareholders with detailed information.

GK Software AG Shares

Basic data

Share price development (indexed)

F.01



Basic data

T.01

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 Bank AG
Number of shares	1,890,000
Share capital	EUR 1,890,000
Free float	44.79 %
Highest price in 2016	EUR 45.68 (26 May 2016)
Lowest price in 2016	EUR 0.00 (0 January 1900)

Summary/share performance

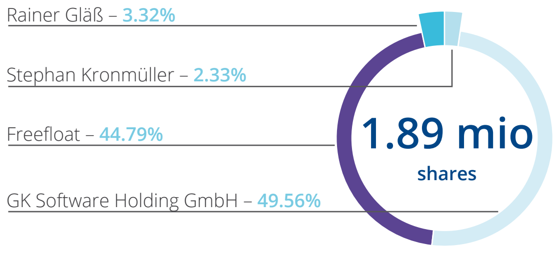
The GK Software AG shares listed on the Prime Standard section of the Frankfurt Stock Exchange registered an enormous upwards trend during the last financial year. The shares were worth EUR 61.20 at the end of the reporting period, having started the year at EUR 36.01. This corresponded to market capitalisation of EUR 115.7 million at the end of 2016, although the rise from September onwards increased once again significantly.

Shareholder structure

GK Software AG has an extremely stable shareholder base, which is enabling the Company to achieve long-term and sustained development. The shareholder structure was as follows on the reporting date of 31 December 2016: Rainer Gläss, the founder and CEO, directly held 3.32 percent of the shares. Stephan Kronmüller, also a Company founder and the former Head of Technology and Development, directly held 2.33 percent of shares. 49.56 percent of the shares were owned by GK Software Holding GmbH, which has been indirectly and equally apportioned to the shareholders Rainer Gläss and Stephan Kronmüller. This created a free float of 44.79 percent on 31 December 2016.

Shareholder structure on 31 December 2016

F.02



The Company was informed about the following holdings in GK Software AG, which exceeded the 3 percent threshold:

Amounts exceeding the threshold value

T.02

Correct on	Shareholder	Share in %
17.3.2016 [1]	Scherzer & Co. AG, Cologne	6.36
22 September 2016	Wilhelm K. T. Zours (of which u.a. Deutsche Balaton Aktiengesellschaft, Heidelberg mit 3.18%)	6.55
27.12.2013	SAP SE, Walldorf	5.29

1 –Initial notification of 5.23 percent on 6 March 2012. Information on the current portfolio by the shareholder on 17 March 2016.

Directors' dealings in 2016

There were none during the 2016 financial year.

Investor relations

GK Software deliberately chose to have its shares listed on the most stringently regulated sector at Deutsche Börse, the Prime Standard, for its flotation in the summer of 2008. The highest possible degree of transparency towards its investors and all the other participants in the capital markets has been one of the most important Company principles from the outset.

André Hergert, the CFO, is responsible for investor relations, which has been assigned its own department. 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 involves the completion of quarterly reports and extensive half-yearly and annual reports in German and English, a finance calendar, compulsory announcements, which have to be published immediately, and corporate news. The accounting system has been adapted to the international IFRS accounting standards and also meets investors' requirements for information. As in previous years, GK Software will also hold an analysts' conference during the Frankfurt Equity Capital Forum in 2017. Investor and press roadshows also take place at regular intervals so that the Company remains in permanent contact with the capital markets.

The Management Board also prepared a report on relations with associated firms in line with Section 312 of the German Companies Act. The auditor checked this and verbally communicated the results of his audit to the meeting on 27 April 2017. The review by the Supervisory Board did not give rise to any reasons for objections to be raised. It did not raise any objections to the Management Board's final declaration in its report in line with Section 312 of the German Companies Act.

The Supervisory Board wishes to thanks the Management Board and all staff members for their commitment and the work they have performed and also wishes them all continued success.

B

Group management report

André Hergert
Chief Financial Officer

Financial Report

Business and general conditions at GK Software

– Corporate structure and holdings

– Twelve business sites in Europe and branches in the USA and South Africa

– Both company founders are actively involved in the Company

GK Software AG[1] is one of the world's leading technology companies for retail sector software with a special focus on solutions for large and very large retail companies with many local stores. GK Software AG and its predecessor company, G&K Datensysteme GmbH, which was founded by Rainer Gläss and Stephan Kronmüller and changed its name to GK Software AG in 2001, have been successfully operating in the market place for more than 26 years. The Company's flotation took place in the Prime Standard segment of the Frankfurt Stock Exchange in 2008.

The Company's headquarters has been located in Schöneck/Vogtl. since it was founded. Alongside its

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Group structure of GK Software AG

F.03

GK SOFTWARE

100%	GK Software USA Inc.
100%	OOO GK Software RUS
100%	GK Software Africa PTY Ltd.
100%	EUROSOFTWARE s.r.o.
100%	TOV Eurosoftware-UA
100%	Storeweaver GmbH
100%	AWEK microdata GmbH
100%	AWEK GmbH
100%	Economically inactive legal units

administration department, the Company has its product development department, project management and third-level support facilities at this site. 1. Waldstrasse GmbH, which was founded to prepare for the takeover of new business activities, is another wholly owned subsidiary. GK Software AG has a branch next to Checkpoint Charlie in Berlin, which is primarily responsible for managing the marketing, sales and partner activities; the Company's user-help desk and parts of the software development work are also based there.

The Group's second largest business site has been situated in Plzen in the Czech Republic for almost 20 years. Software production and research & development are the main activities pursued by the wholly-owned subsidiary, Eurosoftware s.r.o. Major work on programming and further technological developments for the solutions provided by GK Software take place at the Plzen site. TOV Eurosoftware UA in Lviv has been an additional wholly-owned subsidiary of GK Software AG and a site for customised software development since the beginning of 2016.

GK Software AG has another wholly owned subsidiary in Dübendorf in Switzerland called StoreWeaver GmbH. StoreWeaver GmbH has a German branch in St. Ingbert in the state of Saarland. The teams in St. Ingbert are primarily responsible for the onward development of customer projects and they also look after the customers of our SQRS solution.

AWEK GmbH, which focuses on providing services, is also a wholly owned subsidiary. It has its headquarters in Barsbüttel near Hamburg. Mobile technicians for field services are managed from there and cover the whole of Germany. AWEK microdata GmbH, which is also a wholly owned subsidiary and is based in Barsbüttel, specialises in the ongoing development of the Eurosuite checkout software for small and medium-sized enterprises and looks after the installations where this software is in use. AWEK GmbH and AWEK microdata GmbH together form the IT Services segment within the Group.

GK Software has its own sales organisation in Russia in the form of OOO GK Software RUS. GK Software USA Inc. was founded in the USA in December 2013 in order to support the expected expansion of our North American business locally with an organisation of our own. The retail segment of DBS Data Business Systems Inc., which was taken over in March 2015, has been incorporated into GK Software USA Inc. GK Software Africa (PTY) Ltd was set up in South Africa at the start of 2015.

The partnership with SAP SE, Walldorf (SAP) was once again extremely important for GK Software's business during the reporting period, just as it has been in previous years. SAP is by far the most important partner for GK Software in terms of business operations. Sales situations and projects, for example, are processed together in numerous countries. At present, SAP operates as a reselling partner for GK Software on four continents. The "SAP POS by GK" software developed by the Company is the official migration path for existing customers for the discontinued SAP (SAP POS) solution. SAP acquired a 5.29 percent share in GK Software AG at the end of 2013 and has a pre-emptive right to the founders' shares.

The Management Board of GK Software AG consists of Company founder Rainer Gläss (CEO, Strategy, Marketing & Sales) and André Hergert (Finances and Personnel). The Management Board is supported by a Group Management Board, which consists of the following members: Stephan Kronmüller, Michael Jaszczyk (CTO), Harald Göbel (Customer Solutions & Services) and Stefan Krueger (Sales).

The three-man Supervisory Board at GK Software AG is led by the Chairman Uwe Ludwig. He has been a member of the Supervisory Board since 2001. Thomas Bleier was elected to the Supervisory Board in 2003, then was last re-elected to serve a further five years at the 2014 annual shareholders' meeting. Herbert Zinn was elected to the Supervisory Board at the annual shareholders' meeting in 2011.

The management of the Group is largely determined by two key management factors - turnover and earnings - although, for the latter, earnings before interest and taxes (EBIT) and earnings before interest, tax, depreciation and amortisation (EBITDA) are mainly used and the relationship between these earning factors with turnover and operating performance. Operating performance is defined as the sum of turnover revenues and capitalised expenditure for preparing in-house developments. These key performance indicators are supplemented by a deeper economic assessment of the individual segments and the customer orders (projects) that have been handled. The major factor here is the personnel ratio (quotient of personnel expenditure attributed to an object under consideration and turnover revenues) and variants of this factor.

This is accompanied by a key performance indicator system directed at its earning capacity, which concerns the Group's funding. The issue here is the ability of the Group to be able to service its financial obligations at any time, both in the long and short term. The key performance indicators used here concern the equity ratio and the capitalisation ratio in different variants as a measure of matching the maturities of assets and the capital used to fund them. Another important aspect concerns the Group's ability to be able to use any investment opportunities, which arise, at very short notice. A key performance indicator here is the excess in cash and cash equivalents over interest-bearing liabilities. There are different variants of this key performance indicator too, depending on the goal of what is being observed.

This system, which is geared towards financial key performance indicators, is complemented by those geared towards non-financial indicators. The main focus of attention here is on factors like customer satisfaction and the number of customer contacts. They are not observed in a formal manner, but they are recorded and analysed as part of regular reporting to the responsible members of the Group Management Board and the Management Board.

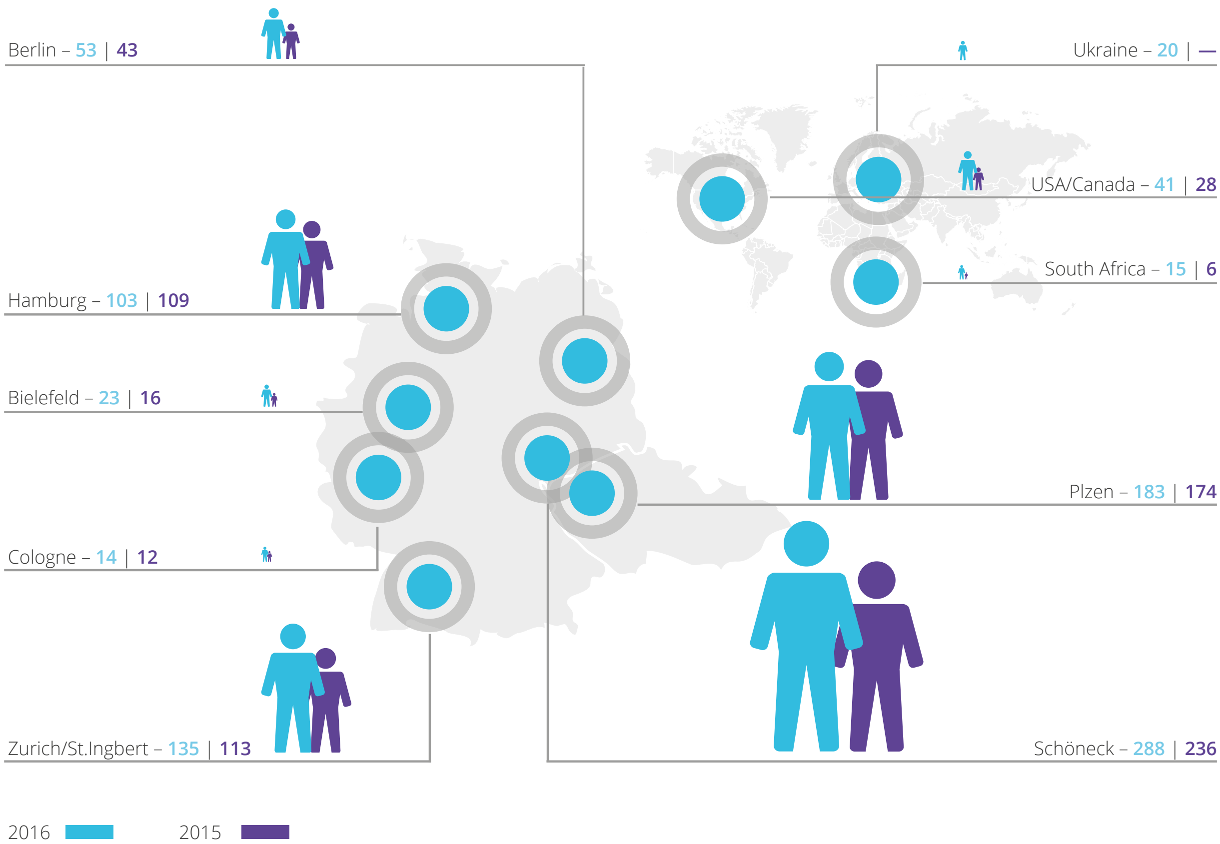
Personnel

- **Growth in personnel continues**
- **Significant growth, through the US acquisition too**

A total of 877 people were employed by the Group on the reporting date of 31 December 2016 (excluding members of the Management Board and trainees). As a result, there were 138 more employees than on the previous year's reporting date (739). With 288 staff members (previous year: 236), a large proportion of the Group's employees are employed at the Schöneck business site. The Berlin branch now has 53 employees working in the sales & marketing, project and partner management, development and first-level support (hotline) departments (previous year: 43).

Distribution of employees at group business locations (from 5 employees) on 31 December 2016

F.04



The number of employees increased to 183 (previous year: 174) at the Czech subsidiary EURO-SOFTWARE s.r.o. in Plzen. There were 103 employees at AWEK in Hamburg (previous year: 109) at the end of the year. They included a large number of mobile service technicians who are deployed at various sites throughout Germany. 23 employees were employed at AWEK's second business site in Bielefeld (previous year: 16); they mainly work on software development. Overall, AWEK has 126 employees (previous year: 125). 130 people were working at the St. Ingbert business site at the end of the year (previous year: 109). Five people were working in Dübendorf (Switzerland) at this time (previous year: 4).

The branch in Cologne had 14 members of staff at the end of the reporting period, in comparison with 12 at the end of the 2015 financial year. As in the previous year, 2 people were employed at the Russian branch at this time. 41 people were working for GK Software in the USA (2015: 28). The South African subsidiary employed fifteen people on the reporting date (2015: 6). The number of people employed at the business site of the Ukrainian subsidiary has increased since it was acquired in January 2016 from 14 to 20.

The Management Board expects the growth in employee numbers to continue at a moderate pace in future and the Company will primarily continue to look for highly qualified employees.

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 in terms of human resources too. Four trainees are also currently employed at GK Software and one student is attending a university of cooperative education.

The GK Software solution portfolio

- **GK Software — Simply Retail**
- **Extensive portfolio of omni-channel solutions**

GK Software is convinced that only innovative, market-driven retail companies with optimised logistics in the omni-channel world, which is already a powerful driving force, will be able to survive. Retail companies will therefore increasingly become technology-oriented companies, which have to be capable of mapping all their consumers' needs on one modern technological platform. At the same time, it will be necessary for them to recognise that they will not handle the increase in complexity with solutions that are running in parallel alongside each other. The main task therefore involves reducing the complexity through a suitable platform solution again and creating solutions, which remain operable and manageable for the users despite growing demands, particularly from consumers. The Company's current slogan "Simply Retail" takes this into account.

In line with this this aspiration, GK Software is following the idea of creating a unified and end-to-end technological platform, which pursues the goal of enabling a consistent and personalised consumer experience through all the so-called customer touch points. It must be possible on this standard platform to create special expansion opportunities for each of the Company's customers at the same time in order to map the individual excellence and the creativity of each retail company. For the latter forms the basis for the specific competitive benefits and unique characteristics of any retailer and ensures that it is perceived as a separate brand within the large number of providers in the retail sector.

The Company has made significant investments during the last few years in order to introduce this fundamental vision of the future in specific software. This has meant that significant parts of the range of solutions have been extensively revised in order to safeguard the future viability of GK/Retail for years to come and not persevere with the status quo. The results of this fundamental management decision are not as clearly evident at first glance as the switch from DOS to Java, for example. However, if we view the effects resulting from this, the expenditure associated with it and the dimension of this change in general terms, this step in terms of software development is at least just as great as the former.

The new solution platform known as GK/Retail OmniPOS (POS = Point of Sale) was initially brought on to the market at selected customers in a ramp-up phase, starting in 2015. This solution platform is far more than the preceding solution, GK/Retail POS (version 12), which is in use at most customers. The fundamental architecture idea of OmniPOS is being able to use nearly all the functions in a modular and dispersed manner and with or without user interfaces. Each function must be usable as a central service, but also as a local instance and be secure across network boundaries. At the same time, the central services must be able to handle the simultaneous operation of very many clients at the data centre or in a (private) cloud. This is the only way to make it possible to guarantee operations at thousands of checkouts, calculate prices at a web shop or safeguard communications with a large number of customer devices, all at the same time.

The different GK Software products continue to be brought together in their specific forms for the market within the GK/Retail Business Suite. All the solutions are fully based on the same GK/Retail infrastructure and on Java and open standards. That means that they consistently do not depend on any particular hardware or operating systems.

GK/Retail OmniPOS was officially launched at the beginning of 2016. GK Software is continuing to maintain version 12 of the GK/Retail Business Suite and adapt it to special customer wishes. However, OmniPOS is the exclusive product for new projects. The GK/Retail Business Suite consists of five core solutions, around which the other process-oriented additional solutions are grouped.

GK/Retail Store Device Control

- **GK/Retail Store Device Control** provides the end-to-end link within the complete store peripheral equipment, for instance, checkouts, scales or reverse vending machines. The software ensures 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 to the various subsystems in a store is provided through standardised peripheral heads, 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. This solution component is sold by SAP using the name "SAP Store Device Control by GK".

GK/Retail Mobile Merchandise Management Processes

- GK/Retail Mobile Merchandise Management Processes covers the store's merchandise management processes, which are directly made available on the floor or in the warehouse on a wide variety of mobile terminals. The processes, which operate online and offline, rely on a central management system like SAP as their standard feature, but can also interact with other merchandise management systems, if necessary. 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 incoming goods, merchandise planning, inventories or automatic label printing. This solution component is sold by SAP using the name "SAP Offline Mobile Store by GK".

GK/Retail OmniPOS and POS

The development and sales activities in the field of POS solutions have primarily focused on GK/Retail OmniPOS since 2015. The GK/Retail POS solution (version 12) will only be further developed for existing customers.

- GK/Retail OmniPOS is based on a new architectural paradigm, which enables the Company to address all the components as a service and distribute them transparently within the network in line with the customer's IT landscape. As a result, a wide variety of forms of the solution ranging from thin to thick and even smart clients is possible. Basic services like the price calculation logics can be deployed both locally on checkouts in stores, centrally on the server or separately and be generally used for all the channels. The design of the front ends on the basis of HTML5 enables rapid adaptation to any kind of device. SAP sells the software under the name "SAP OmniChannel POS by GK".

- GK/Retail POS is the market-leading solution for operating checkout systems. The application guarantees safe handling for all business processes at checkouts (POS) and makes available extensive back office functions for money matters, store administration or reporting.

Other checkout forms are available for both POS variants as additional modules and they rely on the same GK/Retail infrastructure and can be seamlessly inserted in the store landscapes.

- GK/Retail Mobile POS is an innovative software solution for checkout use on devices using the iOS operating system (iPhones, iPods, iPads). The company software manages all the processes available on in-store checkouts and is already being used productively by one important customer. Mobile POS is available in native variants for iPods/iPhones and iPads.

- GK/Retail Self Checkout is an enhancement of our POS software and was newly developed in 2012. It is fully based on our standard software and enables consumers to complete all the checkout processes themselves. Together with the associated iOS app, consumer advisers can immediately respond to demands during the checkout process, e.g. age identification when purchasing alcoholic drinks, and they can offer consumers help and support quickly, if required.

GK/Retail Label and Poster Printing

- GK/Retail Label and Poster Printing is a complete solution relying on the GK/Retail infrastructure for label and poster printing and managing electronic shelf media. It ensures that the central standard process for marking prices and addressing customers directly can be used in an efficient manner for in-store marketing. If changes are made to data in the merchandise management system or printing tasks are triggered manually, the solution ensures that all the necessary processes in the store are automatically handled.

GK/Retail Open Scale

- GK/Retail Open Scale is the scale 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 freely select scales from any hardware supplier. This software has been certified for use by the PTB (Physikalisch-Technische Bundesanstalt– Germany's national metrology institute).

Other solutions in the GK/Retail Business Suite

- GK/Retail Enterprise Storemanager is the market-leading software solution providing administration and technical monitoring facilities for major store networks, including those operating in different countries. The software allows corporations to manage and monitor thousands of stores in many countries and is an important unique selling feature for 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 recognised immediately and resolved as quickly as possible. This solution provides company-wide transparency with regard to the status of systems in stores.

- GK/Retail Sales Cockpit provides web-based business management information related to the current day's business. This means that managers constantly have a comprehensive overview of the course of business in real time.

- GK/Retail Enterprise Promotions Management is a complete solution for creating, carrying out and managing corporate-wide promotions and special offers. It can be used, among other things, to manage discounts granted on customer card systems or the acceptance of many kinds of coupons at checkouts.

- GK/Retail Stored Value Server guarantees secure, company-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 whole company 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 whole company. 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).

- GK/Retail TransAction+ is a market-leading solution for handling payments in the USA. It manages to integrate a variety of point of sale systems and a large range of payment authorisation providers. It meets high data protection standards and supports credit and debit cards and gift vouchers, "electronic benefits" as well as cheque authorisation and accounting for more than 40 payment providers in the USA. The software controls customer-oriented payment devices at the highest level and is certified for the latest EMV transactions (chip and PIN).

The SQRS software package

When acquiring the assets of the former company known as Solquest GmbH, its range of solutions known as Solquest Retail Solutions (SQRS) was also taken over and it is still in use at eight customers with approx. 4,670 installations. The particular high-performance features of the software lie in the areas of SAP integration and mobile solutions. The SQRS solutions were no longer sold after the takeover of Solquest in order to keep the Group's portfolio of products slim. However, minor adjustments are still being made as part of existing customer relations and they are handled by StoreWeaver GmbH. Alongside this, a migration path has been developed in order to provide a long-term perspective for the customers of the former Solquest GmbH company.

Ongoing product development

The main focus of investments throughout 2016 was the new cloud solution known as GK/Retail OmniPOS. In addition, most of the other GK/Retail solutions underwent further development to enable them to work with the new solution. Further premium qualification was granted by SAP for our complete software suite in August 2016. New products and functions were tested by SAP as part of this kind of product testing and in each case the current version was released for sale.

AWEK develops and sells software for medium-sized companies known as euroSUITE and it complements the GK Software range; it is primarily geared towards the medium-sized retail sector and the company provides support for an earlier version of this software used by several customers in German-speaking countries.

Developing and adapting software

In addition to its products, GK Software also provides comprehensive software services. The most important component in this context involves customising and adapting software developments during the initial projects and subsequently introducing change requests, which are a permanent feature of most projects. This includes, for example, adapting software that is already in productive use to broader customer requirements, such as integrating new bonus systems in the checkout environment. Classic issues like consulting, project management or training courses come under the heading of developing and adapting software too.

Maintenance and services

The Group has been able to supplement its portfolio with high-value services by acquiring AWEK. For the first time, it is possible to offer full services to the retail trade in addition to software maintenance, which is subject to charges. This means that GK Software can now provide maintenance for third-party software and hardware made by a wide variety of manufacturers. About 40 mobile service technicians are available for this work and they can reach any store in Germany within set times. In addition to providing classic services, they can handle other options like rollout services or staging (the initial installation of systems). Work is taking place to continue expanding the company's portfolio of services.

In addition, as part of the classic software maintenance, the Group can eliminate errors and faults for all software solutions that are in use at its customers' premises.

Partner training

The GK Partner Academy became fully operational during the 2014 financial year in order to provide qualifications for implementation partners. In order to achieve the status of Advanced Partner within the partner programme, an appropriate number of the partner's employees need to have completed the set training programmes and courses, which are subject to charges. The Group continued to work very hard in 2016 to fulfil the conditions to train implementation partners, which can then handle the introduction of GK/Retail themselves. 12 partners were trained during the course of the year and some of them are now actively involved in implementation projects. During the past year, several hardware partners also paid to have their devices certified by the GK Academy.

Research and development

- **Research and development as a strategic factor in the face of competitors**
- **Constant expansion of investments in R&D safeguard the Company's role as a leading innovator**
- **Using new technologies as part of the partnership relationship with SAP**

The ongoing development of existing products and the development of new software solutions have been the major focus at GK Software during the past few financial years and they will continue to be strategic competitive factors in future too. This is also 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 Pilsen. 16 software developers are currently exclusively working on the latest trends in the software market in order to develop new, ground-breaking products from these. This work is being complemented by the GK Futurelab, which is also based at EUROSOFTWARE s.r.o. in Plzen, and it pools the skills of employees from the complete corporate Group. This gives these employees the freedom to develop new technologies, trends and processes, test them and try them out so that GK Software retains its innovative capacity.

Other impulses for research work come from company managers, sales & marketing, partners and directly from GK Software's customers.

Overall, GK Software spent EUR 420 K on research & development work during the 2016 financial year (EUR 665 K during the previous year); this corresponds to 0.54 percent of turnover. EUR 382 K of this figure was capitalised as intangible assets. Investments in property, plant and equipment were made to the normal degree, but simply cover the equipment at employees' workstations in these departments.

The findings that are gained flow permanently into the ongoing development of the products. For example, these results led to the ongoing development of significant components in the software solutions and they have already triggered very positive responses from the market.

Customers and projects

- **Gaining more major new international projects**
- **The new omni-channel software proves to be very competitive**

GK Software's customers come from almost all areas of the retail sector and are distributed around the globe. The market sectors, in which the Company is active, are primarily the food retail sector, drugstores & household goods, fashion & lifestyle. DIY & furniture markets or technology & cars. The products and software services are geared towards companies with a wide variety of sizes. GK Software currently has 142 customers. They include 34 customers, which are attributed to the retail segment of DBS Data Business Inc., which was taken over in 2015. The Company maintains business relationships with 10 customers, which are among the 50 largest retailers in the world.

The Company has productive installations operating in 42 countries.

New customer projects in 2016:
The Company gained 10 new projects during the reporting period - 3 for GK/Retail and 3 for euroSUITE. In most cases, the customer's name is subject to secrecy until the pilot installation or the rollout has taken place.

- Aldi Nord (approx. 4,900 outlets spread across Europe)
- Gerry Weber (approx. 1,300 outlets in 18 different countries)
- A leading luxury goods dealer (approx. 1,200 outlets worldwide)
- A pharmacy chain (approx. 450 outlets in Mexico)
- An international DIY store operator (more than 350 outlets in the UK)
- An international DIY store operator (more than 260 outlets in Europe)
- A pharmacy chain (approx. 230 outlets in Guatemala)
- An international supermarket operator (approx. 100 outlets in Panama)
- An international supermarket operator (approx. 80 outlets in Panama)
- Golf stores (26 outlets in the USA)
- Baby Walz (AWEK euroSuite, 41 stores in Germany, Austria and Switzerland)
- myToys (AWEK euroSuite, 16 stores in Germany, Austria and Switzerland)
- myMuesli (AWEK euroSuite, 60 outlets in Germany)

In terms of existing projects, 2016 was dominated by successful pilot operations in several projects, rollouts and intensive change request business. The new OmniPOS software was successfully commissioned in Ireland the Great Britain for the first time and was fully rolled out at the first customer. Pilot operations started at three other customers at the beginning of 2017. Several existing customers are currently testing a switch to OmniPOS. One of them has already opted for the new software. We delivered and rolled out more country-specific versions in several ongoing projects. We have also been able to sign further contracts with existing customers and they cover, for example, extensions to licencing agreements or developments to software or other services.

One piece of evidence for the vibrant partnership with SAP is that 39 joint customer projects now exist where GK solutions have been sold by SAP. The strategic relationship between both companies for the store sector was also reflected in their joint activities at the NRF, the most important North American convention, at the EuroShop, the significant European retail trade fair, and many other coordinated activities.

Market and competitive environment

- **The German retail sector once again set new records in 2016 - turnover rose to EUR 482.2 billion**
- **E-commerce continues to grow - its share now accounts for more than eleven percent of the market**
- **Investment needs for retail IT remain high**

Business developments at GK Software are determined by several factors and their effects in different economic regions. The most important determining factors are the general economic conditions, the current situation and the expected business prospects for the retail sector.

With GK Software's expansion into more and more business areas, it goes without saying that the number of factors affecting its business have increased, as the situation in some individual markets may move in different directions in spite of global economic trends. This means that there is at least a partial separation in the Company's business activities from the developments in its original core markets in the medium term - principally in Central Europe - without these markets losing their significance for GK Software in the foreseeable future. The year 2016 illustrated that GK Software can now very easily move into different geographical markets if no major orders or only a few are placed for projects in its traditional home markets.

Alongside the basic economic trends in the markets processed directly or through partners, the general trends in the retail sector are also an enormously important factor for the Company's business. The issue of omni-channel retailing is clearly the number one factor, as it is exerting a huge influence on retailers' strategic decisions in all markets. Long-term issues like demographic developments, new ways of establishing customer loyalty or internationalisation remain important driving forces and are increasingly linked to the mega-trend of omni-channel retailing. GK Software responded to these priorities in the retail sector at an early stage and it has made significant preparations for the future with its new product known as GK/Retail OmniPOS.

Even if growth in 2016 was primarily driven by the licensing business with customers from outside the German-speaking world, the developments in Germany, Austria and Switzerland continue to remain highly significant for the direct business of GK Software, as this is an internationally leading market for the sector. The German retail sector, Europe's largest retail market, had a very successful year again in 2016. After recent years were characterised by continuous growth, revenue actually rose by a further 2.3 percent in real terms[1]. Overall, turnover in the retail sector (excluding vehicles, petrol stations, fuels and chemists) amounted to approx. EUR 482 billion in 2016[2]. The increase in turnover in the retail sector therefore grew more strongly than gross domestic product (GDP), which was able to grow in real terms by 1.9 percent[3]. The retail sector therefore contributed 15.7 percent to GDP overall in 2016 and remains

1 – http://einzelhandel.de/images/presse/Graphiken/DerEinzelhandelJan2014.pdf p. 7

2 – Ibid.

3 – https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2017/01/PD17_010_811.html

a leading sector for the general economy in Germany[1].

The overall prospects for the European retail sector indicate an ongoing upward trend. Turnover adjusted for inflation rose, for example, by between 2.0 and 4.0 percent on average during the months from February until December, in comparison with the figures from the previous year.[2] This development was not reflected in each country, however, and the crisis-hit countries in southern Europe in particular are still a long way off the significantly more positive developments, although slight improvements were recorded there.[3] There has been a continual upward trend in retail sales in the USA during the last few years and this has ensured greater movement in the world's largest retail market.[4]

The development in interactive trade, i.e. mainly e-commerce and the mail order business without any services, continues to be dynamic. This business was able to increase its turnover once again by 9.1 percent to a figure of approx. EUR 57.1 billion.[5] It therefore accounted for 11.8 percent[6] of the total retail sector figures. This growth was mainly attributable to the e-commerce sector, which increased by more than 12.5 percent to a figure of EUR 52.7 billion.[7] The Company expects this trend to continue in 2017 too. According to initial estimates, online turnover in the current year is expected to be approx. EUR 58.5 billion[8]. This trend is even clearer in other important, leading retail markets like Great Britain (15.9 percent of total turnover[9]). However, it is not yet observable to the same degree everywhere. While the share of the online retail trade amounts to 8 percent of the total retail sector in France, the figure is only 2.5 percent in Italy or 6.5 percent in Canada[10]. It should be generally assumed, however, that online retail sales will continue to grow in all developed retail markets.

One trend should particularly be highlighted: it already began to make itself felt in 2014 and is highly significant for the business of GK Software AG. Multi-channel retailers grew disproportionately in 2016 and increased their turnover by 18.9 percent to a figure of approx. EUR 16.6 billion; while the classic, purely online market places only grew by about seven percent to a figure of EUR 26.7 billion. This means that in-store retailers, which can also manage to set up an online business, have been increasingly in a position to make use of their advantages arising from the combination of stores and web shops.[11] GK Software has been preparing its solutions for this development by moving in the direction of omni-channel retailers for years and therefore believes that it is in an excellent position to meet the relevant demands. These unabated developments are triggering huge challenges for the in-store retail sector and the challenges are also being driven by other innovations.

The German Retail Federation (HDE: Handelsverband Deutschland) is expecting nominal growth of 2.0 percent to EUR 491.9 billion for the entire retail sector in 2017. However, the experience of the past few years has shown that the forecasts published by the HDE have tended to be conservative and were usually exceeded by the actual turnover achieved by the retail sector. The German Retail Federation views excellent consumer confidence, the high level of employment, rising incomes, a steady savings rate and a low level of consumer price increases as the basis for continued, moderate growth.[12]

1 – http://einzelhandel.de/images/presse/Graphiken/DerEinzelhandelJan2014.pdf, p. 3

2 – Eurostatistics Data for Short-Term Economic Analysis, Issue Number 01/2017, p. 18 (Retail Trade Deflated Turnover)
http://ec.europa.eu/eurostat/documents/3217494/7571692/KS-BJ-16-007-EN-N.pdf

3 – http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=de&pcode=teiis200&plugin=0

4 – http://ycharts.com/indicators/retail_sales

5 – https://www.bevh.org/uploads/media/Presse_final_bevh-Pressegespra%CC%88ch2017_Pra%CC%88sentation.pdf, p. 4

6 – Own calculations

7 – https://www.bevh.org/uploads/media/Presse_final_bevh-Pressegespra%CC%88ch2017_Pra%CC%88sentation.pdf, p. 6

8 – Ibid., p. 37

9 – https://www.emarketer.com/Article/UK-Ecommerce-Growth-January-Slowed/1015294

10 – https://retail.emarketer.com/article/ecommerce-canada-its-time-has-come/58acceae9c13e50c186f6f31

11 – https://www.bevh.org/uploads/media/Presse_final_bevh-Pressegespra%CC%88ch2017_Pra%CC%88sentation.pdf, S.8

12 – http://einzelhandel.de/images/presse/Graphiken/DerEinzelhandelJan2014.pdf, p. 7

The annual surveys of retailers in terms of their business prospects also support the HDE forecast that 2017 will be a positive year overall. The "e-KIX" retailers' survey in February 2017 showed that approximately 85 percent of the retailers questioned expected their business to remain constant or improve over the twelve-month period [1]. An even more positive picture is provided by Ernst & Young; its survey indicated that 91 percent of retailers expected their business to improve [2].

The analyses performed by the marketing research company GfK also support the HDE forecasts with regard to the developments in the retail sector. The consumer climate remains stable; it fell slightly in February 2017, but is still higher than the level in the previous year. Overall, the GfK is expecting an increase in consumer expenditure in Germany of about 1.5 percent [3]. An increase in private consumption of between 1 and 1.5 percent is also expected for the whole of the European Union. [4]

Looking at the German government's digital agenda, the President of the German Retail Federation (HDE), Josef Sanktjohanser, stated that the "retail sector depends on reliable general conditions with a view to the ongoing process of digitalisation" and "the need for investments is therefore appropriately high" [5]. For stores, this statement is also supported by the study 'Kassensysteme 2016' ('Till Systems 2016') from the EHI Retail Institute. The age of the software in use has continued to rise, according to the study. In line with this, 47 percent of those questioned indicated that they wished to renew their software by 2018. [6]

The need for investments on the part of the retail trade remains high, as the study published by the EHI Retail Institute entitled "IT Trends in the Retail Sector in 2017" indicates. 95 percent of those companies questioned by the EHI at least expected their IT budget to remain constant, if not increase. In addition to this, 39 percent felt that cloud services would become increasingly important in the retail sector and 54 percent believed that omni-channel integration was either excellent or well on track at their own company. [7] The RIS News "Annual Retail Technology Study" shows that 58 percent of the retailers questioned will increase their IT expenditure every year in order to guarantee their customers' data security, increase the personalisation of marketing and expand growing digital sales, for example. [8] These positive market trends are also clearly reflected in the discussions that GK Software is holding with existing customers and potential interested parties. The IT departments at retailers are also focusing on other issues related to technologies and processes, which GK Software is in an ideal position to cater for with its new GK/Retail OmniPOS solution.

Overall, the conditions for the course of business at GK Software during the current financial year and beyond are very positive. This is all the more so because, following the recent project successes in North and Central America or the Middle East, the Company assumes that it will be able to continue expanding its potential customer base internationally. The upturn in the economy in many eurozone countries and the improved prospects for retailers in the USA may also open up more opportunities.

These trends are subject to the proviso that the global economy is not severely disrupted by political or economic factors, which could have a negative effect on the economic situation.

GK Software continues to assume that the investments in new systems, which are required in the short or medium term, and the use of new technology fields for the retail sector will continue to provide sales potential in Germany and the other markets that are being actively processed in future too. The Company also expects the partnership with SAP in particular to lead to successes interna-

1 – e-KIX, HDE-Online-Handels-Konjunktur-Index February 2017, p. 3 http://www.ifhkoeln.de/e-kix

2 – http://www.ey.com/Publication/vwLUAssets/EY-handelsbarometer-juli-2016/$FILE/EY-handelsbarometer-juli-2016.pdf, p. 5

3 – http://www.gfk.com/de/insights/press-release/konsumoptimismus-laesst-etwas-nach/

4 – https://www.gfk.com/fileadmin/user_upload/dyna_content/DE/documents/Press_Releases/2017/20170209_PK_Konsum_dfin.pdf

5 – http://www.einzelhandel.de/index.php/presse/aktuellemeldungen/item/124495-digitale-agenda-schl%C3%BCsselrolle-f%C3%BCr-den-handel

6 – EHI Retail Institute, Kassensysteme 2016, Fakten, Hintergründe und Perspektiven, p. 16ff

7 – https://www.ehi.org/de/pressemitteilungen/it-investiert-vor-allem-in-omnichannel/

8 – RIS News, study 26th Annual Retail Technology Study, p. 6, 10

tionally and reinforce the Company's potential in the long term.

GK Software is currently in an excellent position in many ongoing tender procedures in Germany, Austria and Switzerland and further afield and has important advantages over its competitors with its innovative, broad portfolio of products, the internationality of its solutions and its proven ability to handle projects quickly.

Explanations on the target/ performance comparison

The Management Board had issued the following quoted forecast of the financial performance indicators for the corporate Group operating under the umbrella of GK Software for the 2016 financial year.

> *As a general principle, GK SOFTWARE plans to return to the familiar profit margins of more than 15 percent (EBIT margin on turnover) for its core business in the medium term. We have set ourselves a deadline to achieve this by 2018. This takes place against the backdrop of what has so far been a negative profit margin in the current financial year, but one that has significantly improved. However, the expenses from tapping into new geographical markets could continue to impair developments designed to achieve this goal. Even short-term delays in customer projects can have a considerable impact on the Company's earnings situation. It is precisely the uncertainty about achieving individual sales prospects, which, in conjunction with the size of the Company, creates a forecast for the EBIT that is fraught with considerable uncertainties, as individual large-scale sales opportunities can involve a significant share of turnover revenues with particularly high profit margins.*
>
> *If we follow the estimates outlined at the beginning about the development of the economy in general and the retail sector in particular, it is probable that the GK/Retail's turnover will continue to grow considerably in 2016. In the medium term (up to 2018), we anticipate that we will be able to increase turnover with third parties by fifty percent compared with 2015 […] . However, this development will not necessarily be in any way linear."*

Developments during the 2016 financial year both in the individual Company and within the Group proved that the expectations formulated by the Management Board fully came into effect. The Group's turnover increased by almost one quarter from EUR 62.60 million to EUR 77.33 million compared to the previous year and the EBIT rose from a negative figure of EUR (1.28) million to a positive figure of EUR 3.94 million. The EBIT margin of 5.1 percent on turnover achieved here lies fully within the framework of expectations in last year's medium-term forecast for the period 2016 - 2018.

The expectations regarding the readiness of possible customers to change their minds also proved true, as did the hopes placed in our new OmniPOS product, which can be used in a cloud. It is true that interest has significantly increased because of the good reports about initial experiences with the OmniPOS solutions, which are now in productive use, but possible users still need to be convinced that the GK Software solution worlds will support them in future too.

The costs of tapping into the markets in North America and Africa are still having a significant effect on the profits at GK Software despite the sales successes there and this is causing us to perpetuate this uncertainty factor from the previous year's forecast in the current one. It is true that the costs of this have been significantly reduced - not least through internal process improvements too - but the degree of efficiency achieved still significantly lags behind European levels. Other measures to eliminate these differences have already been adopted and intensive work is also taking place to make use of the leeway still available in the European organisation to improve efficiency in order to achieve our goal of largely covering the expenditure in our operational work through revenues from software maintenance and project work and retail services.

Explanation of the business results and an analysis of the assets, financial and earnings situation

From the point of view of the Management Board at GK Software AG, 2016 was an extraordinarily successful year in its corporate history and represented an important milestone in returning to the pathway of profitable growth. We are making progress along the pathway outlined at the end of 2015 in our medium-term forecast. The corporate group was able to register growth in turnover, which once again resembled more of a leap: turnover revenues rose by more than 40 percent from EUR 62.60 million in the previous year to EUR 77.33 million or almost one quarter; earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 7.80 million and exceeded the figure for the previous year (EUR 2.18 million) many times over.

This means that major parameters in our medium-term forecast have already been reached and we are fully in line with our target corridor for the development of earnings before interest and taxes (EBIT); we were able to register a significant improvement at EUR 3.94 million, compared to EUR (1.28) million during the previous year. It is clear that we have still not yet fully exploited the Company's possibilities, but we are confident that we are well on the way towards regaining our strong profitability levels in the period prior to 2012, which we hope to achieve for our core business with an EBIT margin of more than 15 percent in 2018. The consolidated annual profits during the financial year exceeded our expectations and amounted to EUR 2.83 million, following a figure of EUR (1.50) million in the previous year.

T.03 Total operating revenue

	31.12.2016		31.12.2015		Change	
	EUR K	in % [1]	EUR K	in % [1]	EUR K	in %
Sales	77,333	97.3	62,602	96.5	14,730	23.5
Own work capitalised	382	0.5	525	0.8	(143)	(27.3)
Operating revenues	77,714	97.8	63,127	97.3	14,587	23.1
Other operating revenues	1,769	2.2	1,726	2.7	43	2.5
Total operating revenues	79,483	100.0	64,853	100.0	14,630	22.6

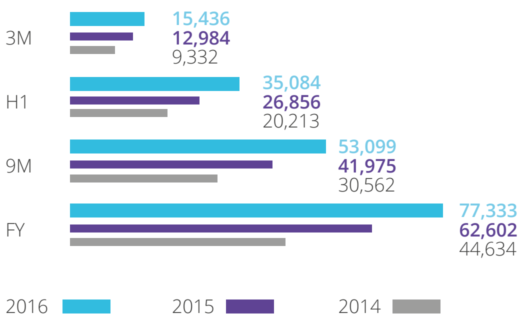
Earnings situation

- **Turnover: EUR 77.33 million**
- **Operating revenues: EUR 3.94 million**

The Group's total turnover rose by 23.5 percent from EUR 62.60 million to EUR 77.33 million. The Group's core segment, GK/Retail, developed in a particularly gratifying way, well above average: Turnover here rose by 30.9 percent from EUR 49.56 million to EUR 64.87 million.

In line with expectations, turnover in the IT Services business segment declined (a fall from EUR 11.98 million to EUR 11.59 million); and it was the same story at SQRS (Solquest Retail Solutions: turnover during the reporting year fell by EUR 1.06 million to EUR 0.87 million). While the decrease in turnover for SQRS is an expression of the slow phase-out of this software solution in favour of GK/Retail, the declines in the IT Services segment

F.05 Quartaly sales development compared to previous years in EUR K



can be attributed to the fall in services related to hardware.

In line with this, the share of total turnover generated by the GK/Retail segment increased to 83.9 percent, while the shares for IT Services and SQRS amounted to 15.0 and 1.1 percent respectively.

Turnover by segments

T.04

	FY 2016		FY 2015		Change	
	EUR K	in %	EUR K	in %	EUR K	in %
Turnover with						
GK/Retail	64,866	83.9	49,559	79.2	15,307	30.9
SQRS	877	1.1	1,062	1.7	(185)	(17.4)
IT-Services	11,590	15.0	11,981	19.1	(391)	(3.3)
Total	**77,333**	**100.0**	**62,602**	**100.0**	**14,731**	**23.5**
Licenses	**12,393**	**16.0**	**10,490**	**16.7**	**1,903**	**18.1**
GK/Retail	11,484	14.8	9,793	15.6	1,691	17.3
SQRS	—	—	—	—	—	—
IT-Services	909	1.2	697	1.1	212	30.4
Maintenance	**21,045**	**27.2**	**20,755**	**33.2**	**290**	**1.4**
GK/Retail	12,799	16.5	12,290	19.6	509	4.1
SQRS	821	1.1	974	1.6	(153)	(15.7)
IT-Services	7,425	9.6	7,491	12.0	(66)	(0.9)
Services	**41,047**	**53.1**	**29,682**	**47.4**	**11,365**	**38.3**
GK/Retail	39,833	51.5	26,076	41.7	13,757	52.8
SQRS	52	0.1	88	0.1	(36)	(40.9)
IT-Services	1,162	1.5	3,518	5.6	(2,356)	(67.0)
Other Business	**2,451**	**3.2**	**1,498**	**2.4**	**953**	**63.6**
GK/Retail	353	0.5	1,223	2.0	(870)	(71.1)
SQRS	4	0.0	—	—	4	—
IT-Services	2,094	2.7	275	0.4	1,819	661.5
GK Academy	**397**	**0.5**	**177**	**0.3**	**220**	**124.3**
GK/Retail	397	0.5	177	0.3	220	124.3
SQRS	—	—	—	—	—	—
IT-Services	—	—	—	—	—	—

If we look at the development of turnover according to types of work, the development of licensing revenues for GK/Retail was particularly gratifying: revenues here rose from EUR 9.79 million to EUR 11.48 million. This development reflects the 10 new customers that opted for GK/Retail. The development for the small & medium enterprise solution known as "Eurosuite" was less important in absolute terms, but still remarkable: licensing turnover here rose from EUR 0.70 million to EUR 0.91 million.

Revenues generated by maintenance work were just as positive; growth of 1.4 percent from EUR 20.76 million to EUR 21.05 million increased the absolute contribution made by this reliable sector every year even further.

Turnover for software work, which are the result of introductory and adaptation services in customer projects, rose by 38.3 percent to EUR 41.05 million. The GK/Retail business segment was the driving force here too with growth in turnover of 52.8 percent.

The EUR 0.94 million increase in other turnover revenues to EUR 2.51 million can be attributed to developments in the IT Services segment. Other turnover revenues from staging as a result of customers gained in the 2015 financial year for the EuroSuite solution increased here. The turnover covers software development work when preparing operational business for this solution for these customers and involves the installation of customer systems locally etc., for example.

GK Software continued to invest in the further development of its solutions during the 2016 financial year too. The visible expression of this was the capitalisation of services with a value of EUR 0.38 million (previous year: EUR 0.52 million), particularly for new functions available in the omnichannel and cloud fields.

Overall, GK Software generated an operating performance amounting to EUR 77.71, following a figure of EUR 63.13 in the previous year (+23.1 percent); other operating revenues during the 2016 financial year remained almost unchanged at a figure of EUR 1.77 million, after this figure had been EUR 1.73 million in the previous year. Total operating revenues at EUR 79.48 therefore exceeded the previous year's figure by 22.6 percent.

Expenditure on ancillary and operating materials, goods and purchased services fell by EUR 0.59 million to EUR 7.68 million in all. It was possible to note two contradictory movements here. While expenditure for goods used and semi-finished products was reduced by EUR 1.53 million and was largely due to the normalised use of goods by GK Software USA in the TAPS field (this was a special situation in 2015), expenditure on project-related work increased by EUR 0.94 million to a total figure of EUR 5.17 million. The background to this is that GK Software is keen to make its organisation more adaptable to fluctuations in demand. This increase was almost entirely due to expenditure on outside service providers in customer projects. However, other factors, which were more negligible overall, related to increased travel expenses triggered by what is now global customer support and similar factors due to the geographical expansion in the field of business.

Management had already decided to further increase capacity for developing products and handling and completing projects in anticipation of a continuing rise in incoming orders. As a result, the average number of employees over the year rose from 697 to a figure of 819. However, this figure also includes the increase caused by the new subsidiary in Ukraine, TOV Eurosoftware-UA, which employed 20 people at the end of the year. The expansion in personnel resulted in an overall increase in personnel costs from EUR 39.67 million in the previous year to EUR 47.67 million in the reporting year. The increase amounted to EUR 8.00 million or approx. 20 percent. The personnel ratio was actually 1.8 percentage points below the previous year's figure at 61.6 percent; however, this figure still has significant potential for improvement in comparison with the figures available prior to 2012 arising from a further increase in efficiency when handling projects. The Company is working hard to enhance this figure in order to return to more efficient ways of working. Management continues to believe that one of its central tasks is to implement and supplement the measures that have been introduced and further improve the qualitative structure of capacities and gear them even more closely to needs.

Other operating expenditure rose by EUR 1.59 million to a figure of EUR 16.33 million. The rise is mainly due to travel expenses, which increased by EUR 0.62 million and can be particularly attributed to the geographical expansion of the Group's business activities. The expansion of business activities also increased the expenditure arising from operating the internal IT infrastructure (an increase of EUR 0.25 million) Other factors driving costs were the general operating expenditure of the TAPS business segment, which was fully taken into account for the first time in the 2016 financial year as part of the GK/Retail segment (an increase of EUR 0.24 million) and the increase in expenditure for handling projects of EUR 0.25 million and attracting and tying employees (an increase of EUR 0.26 million). The general consultancy expenditure for administration reduced this figure; it declined in comparison with the previous year by EUR 0.46 million largely because of the costs of the acquisition of the Retail Division of DBS Inc. in 2015.

Overall, this development led to a major increase in the EBITDA to EUR 7.80 million, following a figure of EUR 2.18 million in the previous year.

Depreciation and amortisation amounted to EUR 3.86 million during the reporting period, following a figure of EUR 3.45 million in the previous year. The main reason for these increases is the scheduled amortisation of the assets identified during the purchase price allocation because of the acquisition of the TAPS partial segment and the recent investments in workplace equipment and IT infrastructure.

Overall, costs increased by 14.2 percent. The major forces behind this development were the expansion of business activities and the significant improvement in expenditure, which is, however, not yet fully satisfactory, on the basis of the production structure and not least in the delivery of overseas projects and the costs of tapping into markets in North America and Africa.

As a result, GK Software achieved an EBIT figure of EUR 3.94 million, following a figure of EUR (1.28) million in the previous year - i.e. an improvement of EUR 5.22 million.

The financial results were negative again at EUR (0.49) million (EUR (0.11) million in the previous year). Interest revenues amounting to EUR 0.15 million (EUR 0.22 million in the previous year) were countered by interest-bearing liabilities of EUR 0.64 million (EUR 0.32 million in the previous year).

Earnings figures

T.05

	FY 2016		FY 2015		Change	
	EUR K	in % [1]	EUR K	in % [1]	EUR K	in %
EBITDA	7,804	10.1	2,177	3.5	5,627	>250
EBIT	3,943	5.1	(1,276)	(2.0)	5,219	—
EBT	3,452	4.5	(1,383)	(2.2)	4,835	—
Group result	2,826	3.7	(1,500)	(2.4)	4,326	—

1 - EBIT margin (on turnover)

Overall this led to consolidated net results of EUR 2.83 million, following a figure of EUR (1.50) million in the previous year. This amounted to undiluted earnings per share of EUR 1.50 and diluted earnings per share of EUR 1.44 in 2016. Both figures amounted to EUR (0.79) per share in the previous year.

Assets situation

The consolidated balance sheet total amounted to EUR 71.62 million on the reporting date and was therefore EUR 3.89 million higher than the figure of EUR 67.76 million on the last reporting date.

Non-current assets rose by EUR 2.90 million to a figure of EUR 37.37 million. Current assets rose by EUR 2.31 million to a figure of EUR 28.23 million, while cash and cash equivalents fell by EUR 1.36 million to a figure of EUR 6.02 million.

The equity ratio on 31 December 2016 amounted to 44.3 percent, after it had stood at 42.8 percent on the reporting date in the previous year. Equity capital amounted to EUR 31.65 million (EUR 28.97 million at the end of the previous year).

Debts at GK Software rose by EUR 1.17 million to a figure of EUR 39.96 million following EUR 38.79 million in the previous year.

Assets situation

T.06

	31.12.2016 (audited)		31.12.2015 (audited)		Change	
	EUR K	in %	EUR K	in %	EUR K	in %
Non-current assets	37,370	52.2	34,468	50.9	2,903	8.4
Current assets without cash and cash equivalents	28,228	39.4	25,916	38.2	2,312	8.9
Cash and cash equivalents	6,017	8.4	7,377	10.9	(1,359)	(18.4)
Assets	**71,615**	**100.0**	**67,760**	**100.0**	**3,855**	**5.7**
Equity	31,654	44.2	28,967	42.7	2,687	9.3
Non-current liabilities	14,843	20.7	15,883	23.5	(1,040)	(6.5)
Current liabilities	25,118	35.1	22,911	33.8	2,207	9.6
Liabilities	**71,615**	**100.0**	**67,760**	**100.0**	**3,855**	**5.7**

The changes in the assets situation are mainly due to the course of operational business when compared to the previous year.

The increase in non-current assets by EUR 2.90 million can largely be explained by the rise in assets under construction by EUR 2.71 million. This particularly concerns the extension of the premises at the Company's headquarters in Schöneck to form a "GK Software Corporate Campus". The non-current assets were also increased by purchases of operational and business equipment caused by the increase in personnel at new workstations and the renewal and extension of existing IT infrastructure; carrying amounts increased by EUR 0.57 million. The increase in goodwill by EUR 0.30 million can be attributed to currency exchange effects and concerns the goodwill, which is entered on the balance sheet by GK Software USA, Inc. Capitalised deferred taxes also rose and increased in value by EUR 1.11 million. The reductions in the remaining non-current intangible assets by EUR 1.66 million can be attributed to the scheduled amortisation of these asset items.

The increase in current assets without cash and cash equivalents by EUR 2.31 million was caused by the significant rise in trade accounts receivable of EUR 5.43 million because of the extraordinarily strong turnover in December. Most of the accounts receivable amounting to EUR 18.03 million, which were entered, had already been received at the time when this report was written.

This increase was reduced by the decline in accounts receivable from ongoing work of EUR 3.01 million, which was due to milestones being reached and accounted for in certain fairly large projects.

Cash and cash equivalents amounted to EUR 6.02 million and were therefore EUR 1.36 million below the figure of EUR 7.38 million on the reporting date in the previous year. We will discuss the development of cash and cash equivalents in conjunction with the description of the financial situation.

The deferred tax assets still include sums amounting to EUR 2.18 million because of losses carried forward from the previous years; based on the expected development of the corporate Group during the next few years, we assume that they will be completely used up.

The non-current debts fell by EUR 1.04 million compared to the balance sheet reporting date in the previous year. The reasons for this can be found in a decline in non-current liabilities towards banks of EUR 2.58 million by reclassifying them in the area of current debts. The development of deferred taxes on the liabilities side, however, reduced the impact of this, as they increased by EUR 1.28 million in comparison with the reporting date in the previous year.

Current debts were primarily characterised by the increased in other liabilities. Their value on the reporting date exceeded the figure for the previous year by EUR 4.74 million. Current bank liabilities also increased as a result of using current account credit lines and credit cards to the tune of EUR 3.21 million and the scheduled repayment and reclassification of amounts in non-current bank liabilities, which were due to be paid within one year, to current liabilities. The increase amounted to EUR 2.62 million. Because of the more precise determination of provisions for bonuses and gratuities, they were entered under "Other liabilities" for the first time, after they had been shown under "Other provisions" in the past. This led to an increase in the statement of "Other liabilities" by EUR 2.40 million and a corresponding reduction in the "Provisions" item. Other forces driving this development were the liabilities from regular salary payments, which increased over the figure for the previous year by EUR 0.54 million because of the rise in the number of employees and the liabilities from income and value-added tax, which rose by EUR 0.39 million. Current debts were reduced by the decline in advance payments received on the reporting date by EUR 3.73 million because of the completion of project orders related to these advance payments.

Financial situation

The cash flow from operating business in the narrower sense – i.e. without any change to net current assets – increased from EUR 1.89 million in the previous year to EUR 7.94 million, i.e. by EUR 6.05 million. The main reason for this was in the significantly improved EBITDA figure, which increased by EUR 5.63 million in comparison with 2015.

The changes to net current assets related to the reporting date weighed on cash flow to the tune of EUR 2.90 million, compared to a positive figure EUR 1.11 million in the previous year. These charges arise from a further increase in trade accounts receivable and other receivables by EUR 3.48 million with a simultaneous reduction in stocks of EUR 0.49 million, so that the change in current assets weighed on the cash flow to the tune of EUR 2.99 million, while the change in debts created to a minimal easing of EUR 0.09 million. This is composed of a negative figure of EUR 3.74 million because of the reduction in advance payments and of EUR 0.87 million in provisions and a credit entry arising from the increase in trade accounts payable and other liabilities of EUR 4.71 million.

Taking into account the balance of paid and received interest and income taxes paid, the increase in cash and cash equivalents from operating activities amounted to EUR 3.69 million, following an inflow of EUR 2.20 million during the previous year.

The outflow of cash and cash equivalents arising from investment activities amounted to EUR 5.09 million, following a figure of EUR 18.58 million in the previous year. The reason for the previous year's figure could be found in the US acquisition completed during that year.

The funding activities of GK Software were largely dominated by the repayment of loans, for which EUR 2.14 million was spent, while only EUR 0.02 million in new loans was taken out. Overall, the outflow of funds due to financial activities amounted to EUR 2.12.

In total, stocks of cash and cash equivalents therefore declined by EUR 1.36 million to a figure of EUR 6.02 million during the financial year and a current account credit line of EUR 3.21 million was used.

In the light of the fact that the Group is managing its capital with the aim of guaranteeing that it will be able to service its loans and debts at all times and provide adequate liquidity to secure investment projects, it therefore places the highest priority on maintaining capital.

Liabilities amounting to EUR 25.12 million will have to be serviced during 2017. EUR 8.97 million is due for repayment in the years 2018 - 2021, then a figure of EUR 0.57 million. Liquid assets amounting to EUR 6.02 and current liquid assets amounting to EUR 28.23 million counter these liabilities.

As regards existing liabilities, EUR 17.89 million was interest-free on the reporting date, EUR 3.41 million was subject to a variable interest rate with an average figure of 1.28 percent and a further EUR 11.26 million had a fixed interest rate of between 2.19 and 4.10 percent. We are expecting interest payments of EUR 0.48 million from these existing liabilities for 2016 and the interest payments will amount to approx. EUR 0.50 million during the following years.

The currency structure of the liabilities on the reporting date involves liabilities amounting to EUR 13.82 million in US dollars, EUR 0.55 million in Czech crowns, EUR 0.25 million in South African rand and EUR 0.14 in Swiss francs as well as EUR 2 K in Ukrainian hryvnia.

Beyond the balance sheet, there were also obligations arising from operating leasing contracts totalling EUR 2.93 million on the balance sheet reporting date, of which EUR 1.34 million is due for repayment during the course of 2017 and the remaining EUR 1.59 million is due between 2017 and 2020.

The Group is currently working on expanding the outside funding available in order to be able to continue using investment opportunities that arise.

The development of the Group's turnover is particularly gratifying and shows that GK Software's market products are meeting customers' needs. The earnings situation improved significantly too, but management only views it as an intermediate stage towards achieving the goal laid down in its medium-term forecast for 2018. The measures introduced in 2015 to improve the production structure are having a marked effect, but do not yet reach the structure in its entirety and are not yet fully exploiting the existing potential in the parts where they are having an effect. A great deal of work is taking place to change this. The key performance indicators on the assets and financial situation have significantly improved over the previous years as an overall impression and confirm to management that the Company can reach the goals arising from its medium-term forecast made in the financial accounts in 2015. We would refer here to the explanations on the target/performance comparison.

Financial and non-financial performance indicators

Financial performance indicators. It should be noted that the key indicators, on which the financial data is based, are very much connected to each other. As a result, the development of these figures largely depends on the development of two key indicators. These are turnover and earnings. In order to normalise tax effects, GK Software uses earnings before income taxes and the financial results (EBIT) to determine earnings and the margin on operating performance derived from this. In this sense, we refer to the forecast report for the development of these key figures.

T.07 Financial performance indicators

		31.12.2016	31.12.2015
Gross earnings margin on turnover	%	92.8	90.4
Personnel ratio	%	61.6	63.4
EBITDA margin on operating performance	%	10.1	3.5
EBIT margin on operating performance	%	5.1	(2.0)
Equity ratio	%	44.2	42.7
Investment ratio I	%	52.2	50.9
Excess in cash and cash equivalents over interest-bearing liabilities	EUR K	(8,746)	(7,346)

We would refer to our comments on the Group's management system as regards the calculation system for these key performance indicators.

The key performance indicators listed above help with analysing any developments that deviate from the plan. For example, the personnel ratio is an important figure for analysing the development of the earnings situation. On the other hand, this largely depends on the "Turnover" key performance indicator and any deterioration in its value may express both wrongly established production apparatus and the failure in the target figure to meet the "Turnover" key performance indicator. However, this can be directly deduced. In this sense, these key indicators are important aids in analysing the development, but do not form any control parameters in themselves.

If we assume that the forecast for the key performance indicators will be met, we can expect that the key performance indicators cited here for analysing the earnings, financial and assets situation will develop positively and will again move towards the figures quoted in the medium-term forecast for 2016 - 2018.

Non-financial performance indicators. Management largely observes key figures in sales activities when it comes to non-financial performance indicators. There are two key values here: customer satisfaction and the number of customer contacts. They are not observed in a formalised manner, but are documented and assessed through regular reports about existing projects and sales activities with possible new customers and are presented to the responsible members of the Group Management Board and the Management Board and then assessed. Decisions about ongoing actions and procedures are made at an individual case level. Overall, we expect customer satisfaction to continue to improve.

Report on the Risks, Opportunities and Outlook for the GK Software Group

The Management Board did not determine any notable changes to statements made in previous years as part of its risk and opportunity management system during the recent checks on existing opportunities and risks.

Risks

Risk management system

The risk management system focuses on recognising risks. It attempts to pick up any possible risks that might pose a threat to the company's existence and those that might not. The risk management scheme does not record any positive opportunities.

Due to the nature of the risk management system, the focus is on early recognition and reporting any emerging risks. For this purpose, informal discussions between the members of the Group Management Board and employees, who are responsible for the risk classes described below, are encouraged in order to eliminate any avoidance strategies in communications as far as possible. This is because the management team is aware that the early recognition of risks requires open communications between top managers and those responsible, but at the same time, people tend to avoid communicating unpleasant news; managing risks by monitoring key figures alone is not possible. Nevertheless, the risk management system is being further developed with a view to the expansion of economic key figures in particular, in order to facilitate the verification of informal information.

The most serious risk among the following ones is the risk of damage to the Company's reputation if an individual project should go wrong. The risks that influence customer behaviour, such as the effects on demand because of a perception that the company has performed inadequately or delays in investments because of new market conditions or regulatory measures, follow this in terms of their significance. There may well be connections between the two types of risks mentioned: changes in market conditions or regulatory requirements could increase the complexity of projects, making it more likely that problems will arise during projects.

The risks presented in the following section can be summarised as follows.

Risks resulting from changes in the requirements of potential customers must first be summarised. These lead to increased sales cycles and therefore to a reduction in the number of realisable sales opportunities. At the same time, new requirements increase the complexity of projects, which raises the risk that project plans might fail. These risks increase the risk of damage to the Group's reputation because the lack of sales opportunities, above all caused by extended sales cycles, raises the significance of individual projects for the overall reputation of GK Software. Another risk group is related to external risks such as macroeconomic developments, the development of regulatory framework conditions and shifting focuses in the customer and competitive environments. These risks cannot be controlled by the Group and can in part have the effect of enhancing the risks in the first group. A third group of risks relates to the development, usage and management of project capacities. The solution to the usage risk lies in increasing the flexibility of capacities; increased risks for project quality may result from this because more flexible capacity can only be accessed indirectly. Further risks are individual risks that are the result of major individual measures such as company acquisitions and their integration. Alongside these aforementioned operational risks, there are financial risks, but their impact on forecasts is not believed to be very significant at the moment.

We are summarising the individual case risks, which result from the acquisition of other companies, for example, in our own risk category, which is not subject to any general assessment sequence.

There is also a separate risk category related to the issue of tying employees to the company and gaining new ones.

GK Software deliberately takes entrepreneurial risks in order to benefit from the opportunities presented by the market in the appropriate manner. A risk management system has been introduced during the past few years to recognise, manage and minimise risks at an early stage. Among other things, the Management Board meets once a month to discuss possible identified risks and introduce countermeasures. In order to give all the business units the opportunity to outline their concerns, a Group Management Board was formed where the business units can continually report on their development and any risks and opportunities that arise. The Supervisory Board is informed of the results of these discussions. The documentation for the risk management system is being continually updated.

Risks and overall picture of the risk situation

One major risk that cannot be influenced by the Group involves the business developments of GK Software's customers due to the development of the general economy and consumer sentiment. The actual developments in 2016 and previous years and also the prospects for 2017 and thereafter have been characterised by generally steady and constant growth prospects in the economic and political situation in many parts of the world. The direct and indirect effects of the crises, which have already broken out or are smouldering, on the specific markets where GK Software is active are still unclear. They include the unresolved Ukraine/Russia conflict and the effects of latent terrorism risks in Germany and Europe, the ongoing development of the situation in the civil war regions in the Middle East and North Africa and the refugee crisis - all of them with the potential for effects to increase. Then there are the political uncertainties because of the important election year in Europe and Germany and the lack of clarity about the political direction in the USA in almost every respect. The actual ongoing developments in this situation and the associated uncertainties could exert an influence on economic developments in Europe, but it is impossible to specify any details at the moment.

It is true that the forecasts presented by associations and analysts tend to suggest that the retail sector will enjoy relatively steady developments in a significantly calmer overall economic environment again, but the psychological factors of any contradictory news situations on the investment behaviour of customers of GK Software can only be guessed in an environment that is hard to assess - as was the case last year.

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

One major argument for the successful sales of GK Software solutions and the long-standing customer relationships in many cases is the consistently successful completion of customer projects in the past. However, any failures in the project business could do long-term damage to this positive reputation and even lead to a reversal of this positive sentiment towards GK Software. This kind of situation could pose a threat to the company's long-term existence. As a result, the relevant project managers inform the responsible members of the Group Management Board about any possible risks during the course of ongoing projects in order to enable an appropriate and timely response to these kinds of risks. GK Software views the degree of customer satisfaction and the number of new customer contacts as important indicators for assessing risks. These two factors are therefore subject to particular monitoring and are regularly checked as part of the sales controlling processes.

On the basis of its customer structure and the structure of its target market, the Group business is repeatedly dominated by individual major projects with a relatively small number of customers, with the result that these business relations provide significant contributions to turnover and results within any financial year. The Management Board anticipates that this will continue to be the case in future too. If a business partner breaks off a project or drifts into payment difficulties, this can have financial consequences for GK Software too. However, this risk is restricted by regular payment plans or agreements for payments according to so-called project milestones.

Another new risk arises from the start of developments related to omni-channel approaches in the retail sector. This fundamentally new way of thinking and the opportunity of introducing it can extend the sales cycles in comparison to current periods, as customers view these developments as strategic and have to introduce an appropriate process to achieve the full potential. This can extend the times required for decisions to be made with the corresponding effects on sales opportunities for GK Software.

The ongoing consolidation of the retail sector market may lead to a reduction in the number of store networks in the long term, which could lead to an increase in buying power from the retail sector. The retail sector in Germany is generally dominated by strong competition in terms of prices. Retail companies therefore seek to pass on the resulting pressure on prices to their suppliers and contractual partners. This process is also felt in the field of investments in IT equipment and may have an effect on manufacturers of software for the retail sector. However, as GK Software makes available strategically significant solutions to retail groups, these risks are not classified as a threat to the company's existence.

The process of consolidation on the customer side is continuing, similar to that encountered at rival companies. This concentration is marked by the acquisition of direct competitors of GK Software by major global manufacturers of hardware, which are therefore becoming universal providers for the retail sector. This combination could cause possible customers to purchase all their services from these rival firms. Although the Management Board assumes that the market development seen in the past leads to hardware and software being purchased separately, it is impossible to fully exclude a reversal in this trend and therefore adverse effects on the sales opportunities at GK Software.

The planned expansion is also associated with certain financial risks. These mainly arise from preliminary payments for customer acquisition for the Group. This risk is increased by the extensions in sales cycles already mentioned above. The increase in sales expenditure associated with longer sales cycles plays a role in part. However, the need to maintain the ability to deliver products when deals are signed is of special importance. This can lead to idle capacity costs of a significant magnitude.

The project business also needs to be increasingly scaled as part of any further expansion and this take places by involving partners. There are, however, other risks here, in particular quality risks, due to a lower level of control over partners. GK Software has therefore set up a partner programme to certify integration partners and so-called project coaches. This is designed to guarantee the quality of project operations and continually develop this work.

Customer projects in Germany and abroad, which are increasingly becoming more complex, as described in the analysis of the market and competitive environment, also contain risks for the ongoing development of GK Software and could lead to higher provisions for warranties and fair dealing arrangements, not only for individual projects, but for all of them. The Management Board is however confident that it has steered the development work for software in a direction that generally guarantees the quality standards achieved in the past. This quality risk in individual projects is managed by regular reporting by the responsible project managers to the responsible Group Management Board Members. A summary report of recognised risks is communicated to the Management Board at the standard monthly Board meetings.

GK Software cannot exclude the possibility that it will expand its product and sales base by the deliberate acquisition of companies with a view to expanding its business activities during the next few years. The Group will exercise the maximum possible degree of prudence when preparing for and checking acquisitions. However, it is impossible to fully exclude the risk that an acquisition may have negative effects on the results at GK Software.

To ensure further growth, the Company needs to attract additional, highly qualified employees. At the same time, it is impossible to rule out the possibility that members of staff in key positions will leave the Company. For this reason, it will be an ongoing challenge for the Company to retain current staff in the Company and attract new, motivated specialists at the same time. The Company is making efforts to be an interesting employer for its existing employees and become an interesting employer in the jobs market by providing a combination of interesting tasks, international fields of operation and innovative products. The flotation and the Company's reputation as an innovative IT corporation have made the Company considerably more attractive in the jobs market. The aim is to further increase the existing attractiveness by completing the introduction of share option schemes for managers and senior employees in the Company. In addition to competence management, which aims to further increase the skills and abilities of employees in line with their tasks, we have initiated other measures like our active balance programme, which promotes a variety of joint activities by employees including minor work designed to make everyday life easier; this aims to increase the attractiveness of the Company. We wish to reinforce this even more by planning and designing our corporate campus at the Company's headquarters in Schöneck.

In the light of the fact that the Group is managing its capital with the aim of guaranteeing that it will be able to service its loans and debts at all times and have adequate liquidity available to secure investment projects and therefore places the highest priority on maintaining capital, it is important to state the following risks to business developments within the Group too.

The financial risks not only involve credit default risks and liquidity risks, but also market risks. We understand a credit default risk to be the risk of a loss for the Group if one contractual party does not meet its contractual obligations. In principle, the Group only maintains business relations with those contractual parties where any deviation from the contractual obligations does not appear to be probable.

Trade receivables exist with the Group's customers. The maximum credit risk corresponds to the carrying amount of the trade accounts receivable. All the Group's customers are companies with an outstanding position in their respective markets.

The probability of any default on account of the impossibility of meeting the obligations agreed with the Group is therefore slight. This situation is monitored closely by observing the customer's payment behaviour, the market environment and drawing on external sources such as reports from the relevant specialist press. If this monitoring process gives rise to an assumption that the general economic situation for individual customers has changed, further measures are adopted in agreement with the management team in order to restrict any possible losses. Value adjustments may also occur if customers believe that work has not been complete or is inadequate. In these cases, the Group basically carries out individual value adjustments for precautionary reasons to the degree that there is some expectation that settlements on a goodwill basis – without any recognition of legal grounds – might be made. Interest revenues have not been entered from these depreciated financial assets.

The default risk with regard to cash and cash equivalents is slight, as the banks holding the accounts are all members of the German deposit protection scheme or they have an outstanding reputation with a corresponding credit rating.

The Group is also exposed to credit risks, which are the result of financial guarantees granted to banks. The maximum default risk for the Group in this regard corresponds to the maximum sum, which the Group would have to pay if a claim was made against a guarantee.

The Group controls the liquidity risks by having appropriate cash and cash equivalents, credit lines and similar credit facilities available and by monitoring the deviations between forecasts and actual cash flows. The maturity dates of financial obligations are monitored, as is the Group's fundamental ability to generate adequate finances from its operating business in order to be able to meet these obligations at any time. The Group typically accepts so-called "covenants" in addition to the general loan conditions when funding projects with loans, which are provided by banks, and they relate to general financial performance figures or other conditions. Failure to meet these additional conditions normally entitles the bank concerned to make the loans in question due for payment in full immediately, regardless of whether the main loan obligations are being met and probably can continue to be met or not. The Group handles this risk by monitoring the covenants and communicating with the banks concerned in an appropriate manner.

Based on the current structure of liabilities and the actual liquidity situation, the Management Board has not identified any liquidity risks.

In the view of the Management Board, there were no risks, which could prove to be a threat to the existence of GK Software and its Group at the end of 2016.

Risk reporting in relation to the use of financial instruments

Market risks The Group is exposed to risks associated with exchange rates and interest rates as a result of its business activities. The exchange rate risks result from the business sites maintained in different currency areas and increasingly from customer relations that go beyond the eurozone. The interest rates are the result of selected types of financing to enhance the Group's financial leeway.

In order to guard against these market risks, the Group is making increasing use of derivative financial tools like interest-capping arrangements or currency hedging tools to provide safeguards against rising interest on debit balances and a possible devaluation of the euro. This hedging business is always closely related to the Company's actual fundamental business and is exclusively used to maintain, as far as possible, the bases for calculations used for this business.

Exchange rate risks arise from the Group's exposure to Czech crowns, Swiss francs, Russian roubles, South African rand, US dollars as well as Canadian dollars and Ukrainian hryvnia. The Group therefore enters into payment obligations arising from work, renting and leasing contracts in all these currencies. GK Software with its companies therefore not only issued invoices for sales and services in euros on the balance sheet reporting date, but also in Swiss francs, US dollars, Canadian dollars and South African rand. In order to be able to handle the Group's currency risks in a standard manner, GK Software AG tries to unify the currency risks internally. The Group carried out a sensitivity analysis to determine its risk of exposure to foreign currencies. The results of this analysis show that exchange risks amounting to EUR 1.036 K arise if there is a ten-percent increase and/or decline in the value of the euro in comparison with these currencies (EUR 1.247 K in the previous year). EUR 942 K (previous year: EUR 1.110 K) of these risks are covered by financial instruments. In the view of the Management Board, the sensitivity analysis, however, only reflects part of the exchange rate risk, as the risk at the end of the reporting period only reflects the risk during the year to a certain extent. Risks exist in possible changes in exchange rates for services, which the Group companies settle in local currencies every month. Services with a total value of EUR 7.38 million were provided by Group companies in 2016, which were either paid for in a currency other than the euro or not billed in the currency in which the services were provided for the third parties. These service invoices were settled in Czech crowns, Russian roubles, Ukrainian hryvnia, Swiss francs or US dollars.

An interest exchange rate swap was taken out to safeguard the cash flow arising from the acquisition of the Retail & Programming division of DBS Inc. in the USA in order to repay the investment loan from IKB. The interest and currency swap started on 31 December 2015 and ends on 31 March 2021. Quarterly repayments amounting to USD 529 K and approx. USD 100 K in interest must be paid to IKB from the first half of 2016 onwards. Bank assessments were used to determine the fair value on the balance sheet reporting date. The market value of this interest and currency swap covering a nominal volume of EUR 8,500 K (USD 9,006 K) amounted to a total figure of EUR (28 K) on the balance sheet reporting date - derived from the mid-market price. This amount was entered on the balance sheet under "Other liabilities". No valuation unit was formed.

The Group is exposed to interest risks, as it takes out financial resources with fixed and variable interest rates. The risk is controlled by maintaining an appropriate ratio, i.e. by taking out a mixture of fixed and variable interest rates on funds. This takes place by using interest rate caps. The interest risks are the result of interest payments agreed within the loan contracts. There is no link with the exchange rate risk here, because all the loans are nominated in euros. Interest payments amounting to EUR 637 K were made during the reporting year and were entered on the income statement. The interest rate on the loan with the DZ Bank is fixed for the complete term so that no interest risks arise from this contract. The fixed interest rate also exists for the complete term of the loan taken out with IKB Industriebank AG to fund the acquisition of the Retail & Programming division of DBS Inc. The interest rate is set quarterly at a rate of 1.9 percentage points above the three-month EURIBOR rate in the case of the investment loans taken out with the Commerzbank with a value of EUR 750 K and EUR 450 K (value on the reporting date: EUR 274 K). The interest risk has been restricted by an interest rate cap of 1.0 percent p.a. The loan of EUR 180 K from the Commerzbank in Plauen (value on the reporting date: EUR 50 K) also attracts an interest rate that is set quarterly at 1.8 percentage points above the three-month EURIBOR rate. Once the existing interest rate cap has expired, no further interest rate hedging will be used because of the low loan debt. If there were an extreme change in the three-month EURIBOR rate by one percentage point, this would trigger a change in the interest expenses amounting to EUR 42 K during 2016 (determined using the factual interest expenses during 2016 with a changed interest rate). There are no risks related to interest on deposits because of the current low interest rates for deposits. Despite this, the Company is keeping a close eye on the development of interest on deposits. The investment strategy can be quickly adapted because only short-term investments are used.

There are no other risk categories, because of the type of financial instruments used. There is a description of the exchange rate and interest risk in section 8.1 of the notes on the consolidated accounts.

In the view of the Management Board, there were no risks, which could prove to be a threat to the existence of GK Software and its Group at the end of 2016 or on the publication date of 27 April 2017.

Opportunities

There are growth opportunities for the Group both in Germany and abroad. The issues targeted by the products of GK Software are key strategic IT projects that are high on the list of priorities at many retail companies. In order to be successful in the international market, the Group is well placed with references, not only from the German retail sector, but from having a technically well-developed product. GK Software is already very well represented internationally with more than 225,000 installations in over 40,000 stores in 42 different countries. GK Software also has several major partners with excellent networks in the retail sector. The partnership with SAP in particular should make it easier to gain access to new customers in international markets like the USA and Asia. The Group can make use of the experience that it has gained with its German and international customers, as the solutions have already been successfully introduced in 42 countries and can therefore be quickly transferred to foreign customers.

The growth prospects in Germany have not yet been exhausted by a long way either. The focus of GK SOFTWARE AG will be on new areas in future. Fairly small and medium-sized chain stores, which have not been a prime target in the past, provide further huge potential, particularly if standardised solutions are sold.

One of the major issues for retailers during the next few years will be to integrate their in-store business with other channels, e.g. web stores or mobile apps. Then there are the latest trends like home delivery, mobile payments or social networks, which need to be integrated on one platform. Other long-term issues like integrated and automated processes for optimising stocks, scheduling and efficient customer management systems will continue to play an important role in reducing costs and increasing customer loyalty. As a result, the retail trade will almost certainly invest in solutions that integrate all the business processes. Without standardisation and the simplification of processes, retail companies' margins will come under even greater pressure. Homogenised checkout systems and centralised data flows will therefore be very important to retailers in future. GK Software can benefit from this investment behaviour on the part of the retail sector.

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

Internal monitoring and risk management systems with regard to the Group's accounting process

The instruments related to the accounting for the internal checking system and risk management pursue the goals of completing accounting tasks according to the statutory provisions and recognising potential risks in the economic development of the Group in good time. The focus not only particularly relates to the internal checking system for invoicing, but also on complying with the relevant stipulations in invoicing law.

The internal checking system is being continually developed by the Management Board and monitored by the Supervisory Board. The Management Board dictates the design and scope of the requirements placed on the internal checking system. It must be noted that any internal checking system related to invoicing procedures - regardless of its scope and type - cannot provide any absolute reliability, but has to be designed in such a way that any major incorrect statements about the Company's or Group's earnings, asset and financial situation can be prevented.

This task is the responsibility of the finance department at GK Software, which is constantly developing the existing tools, strictly taking into account the development of the Company's business operations and the legal 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.

The constant increase in the speed of amendments to European international accounting laws and additions - which often contradict and compete with national law and standards - is proving to be an additional burden on any presentation of accounts and involves a number of risks with a view to conforming to standards; this goes far beyond what was normal in the past. In order to keep the expenditure on this level of conformity within a reasonable framework in proportion to the information benefits for those who will actually read the balance sheet, the Company is not only trying to train employees who are familiar with accounting practices by consulting external service providers, but also obtain the necessary information about adjustments to accounting law in good time and include this in the accounting processes in the appropriate manner.

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 within standardised 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.

The Group accounts and the accounts of the individual companies are organised and handled in-house, as are the accounts of GK Software and all the individual companies. GK Software AG completes the accounts for the German subsidiaries or branches of subsidiaries as a service. The accounting procedures for the foreign Group companies are handled locally. The wage and salary accounts for the German companies and branches of the foreign subsidiaries are conducted by the GK Software AG wage and salary accounts department on its own.

The accounts for GK Software AG are handled with IT support and displayed on Microsoft Navision. The technical equipment and the provision of personnel for the department have been selected in such a way that all the tasks associated with a company of this size can be handled appropriately.

Outlook

Based on the information available so far, the Management Board is expecting the Company's financial and earnings situation to further improve as a result of the ongoing expansion of business in 2017 and it does not expect any developments in its financial situation, which could pose a threat to the company's existence. This estimate is naturally subject to the impact of developments, which the company cannot influence and which might have a significant effect on this forecast, whether they are expected or come as a surprise.

We continue to believe that the pursuit of our strategy to increase the extent of our geographical range by tapping into and further developing other geographical markets represents the correct course for GK Software. We are continuing to pursue the goal of covering operational expenditure completely or almost through revenues from project work, software maintenance and retail services in order to uncouple the revenue situation from previous fluctuations.

In general terms, the following points need to be noted: GK Software is continuing to plan to return to the familiar profit margins of more than 15 percent (EBIT margin on operating performance) for its core business by 2018 and then maintain this level. However, the expenses from tapping into new geographical markets could continue to impair developments designed to achieve this goal, as mentioned above. Even short-term delays to customer projects can have a considerable impact on the Group's earnings situation. It is precisely the uncertainty about achieving individual sales prospects, which, in conjunction with the size of the Company, creates a forecast for the EBIT that is fraught with considerable uncertainties, as individual large-scale sales opportunities can involve a significant share of turnover revenues with particularly high profit margins.

If we follow the estimates outlined at the beginning about the development of the economy in general and the retail sector in particular, it is probable that the GK/Retail's turnover will continue to grow considerably in 2017. By 2018, we had anticipated that we would be able to increase turnover by fifty percent compared with the base year for our medium-term forecast, 2015 (EUR 62.60 million). It was possible to register a figure of EUR 77.33 million in the year being reported. It therefore seems appropriate to expect that the target figures in the medium-term forecast could be almost or completely reached during 2017.

We cannot provide a forecast for profitability for individual years. However, we assume that we will once again be able to achieve our old target margin level (EBIT margin) of earnings before interest and taxes of more than 15 percent in our core business segment in the medium term (by 2018) (the figure was 5.1 percent in 2016). Although we are expecting some progress in reaching this figure in 2017, the possible project delays already mentioned and the activities in our non-European target markets, which have a high degree of priority for the Company, could entail further considerable costs and impair the expectations regarding profitability.

As regards the non-financial performance indicators in the area of customer satisfaction compared to the reference year of our medium-term forecast, 2015, we are expecting a further steady improvement during the next few years; this will be based on product improvements and the addition of local employees in the project-customer interfaces. However, we would like to emphasise that the expansion into new geographical markets may cause friction due to cultural differences, which could temporarily prevent us from reaching this target. Based on our expectations, the number of customer contacts will not change significantly, but will lead to better qualified opportunities.

We would explicitly repeat here once again that these estimates are subject to no external political or economic shock situations taking place. The volatility of the general conditions has constantly increased over the past few years and will at least remain at this enhanced level. These kinds of problems, which affect the whole economy, could lead to a curb on the readiness of the retail sector to make investments and this could logically have a negative effect on the turnover and earnings potential at GK Software.

The absolute priority at the Company will be further growth in future too. The Supervisory Board and the Management Board of GK Software therefore propose to only distribute the available funds in the form of dividends if extraordinarily positive business developments with positive figures occur.

Other Information

according to Section 315 of the German Commercial Code

Principles of the remuneration system at GK Software AG

The members of the Management Board not only receive a fixed salary, but also a component that is dependent on results and this is linked 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 Management Board is granted benefits in kind in addition to fixed remuneration. This includes the provision of company cars, which are also available for private use. In addition to this, the Management Board members are reimbursed for the costs of maintaining residences at the different corporate business locations. The members of the Management Board are also provided with pension packages according to their level of seniority.

Furthermore, pension commitments have been made to both members of the Management Board and to two former members of the Management Board. The members of the Management Board are entitled to participate in the Company's share option programme according to the general rules stipulated for these programmes. The allocation of share options to members of the Management Board is made by the Supervisory Board and depends on the degree to which the members of the Management Board have met their business targets.

10,000 share options in all were granted to the members of the Management Board during 2016. Overall, the members of the Management Board were able to hold more than 34,000 options on the balance sheet reporting date. The following applies to the whole Management Board if the targets that are set are fully met: their total earnings are divided up into a 70 percent share for the fixed part and a 30 percent share for variable earnings. Fixed earnings of 61 percent and 39 percent of earnings determined in a variable manner were paid out or offered as bonuses during the course of 2016. It is possible to grant severance payments to members of the Management Board who leave the Company if they have performed any extraordinary work within the scope of the German Corporate Governance Code. The Supervisory Board determines whether any benefits are granted or not.

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

Information according to Section 315 (4) of the German Commercial Code

1. **Capital ratios.** The equity capital at GK Software AG amounted to EUR 1,890,000.00 on 31 December 2016 and was divided up into 1,890,000 no-par ordinary shares with a mathematical share in the equity capital of EUR 1.00 each. Each no-par value share grants one vote, in accordance with Section 4 of the articles of association.

2. **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 share capital. 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.

3. **Equity shareholdings.** The following direct or indirect shareholdings that exceed 10 percent were known on the balance sheet date:

a. Mr Rainer Gläss directly or indirectly has 531,142 shares (28.1 percent), of which 468,350 shares are indirectly held by GK Software Holding GmbH.

b. Mr Stephan Kronmüller directly or indirectly has 512,350 shares (27.1 percent), of which 468,350 shares are indirectly held by GK Software Holding GmbH.

c. GK Software Holding GmbH directly holds 936,700 shares (49.6 percent). Mr Rainer Gläss and Mr Stephan Kronmüller each own half of this company.

d. SAP SE, Walldorf, Germany, informed us on 10 December 2013 in accordance with Section 25a of the German Securities Act that its voting rights share as a result of (financial/other) instruments, which is subject to reporting requirements, amounted to 60.5 percent (corresponding to 1,143,492 voting rights) on 10 December 2013, based on the overall number of voting rights at GK Software AG, i.e. 1,890,000.

4. **Appointments to the Management Board and changes to the articles of association.**
Appointing and dismissing members of the Management Board are issues that are governed by Sections 84 and 85 of the German 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 association, the number of members on the Management Board is determined by the Supervisory Board, but the Management Board must comprise at least two persons. The Management Board at GK Software AG currently has two members.
The articles of association can only be amended by the annual shareholders' meeting according to the rules of the German Companies Act. The Supervisory Board may decide on the wording of the articles of association – i.e. simply make linguistic amendments to the articles of association - according to Section 10 Para. 8 of the articles of association.
Any decisions taken at the annual shareholders' meeting require the simple majority of votes cast according to Section 15 Paragraph 2 of the articles of association, if the law does not prescribe anything different.

5. **The Management Board's powers to issue and buy back shares.**
Contingency capital According to Section 4a Paragraphs 1 and 2 of the articles of association, the Management Board was authorised, with the agreement of the Supervisory Board, to grant one or several subscription rights on as many as 37,000 individual shares to members of the Management Board, managers of companies, where GK Software AG has a direct or indirect majority holding ("associated firms"), and managers of the Company and its associated firms as part of the share option scheme by 14 May 2013.
16,175 share options in all were offered to employees of the Company and associated firms in the 2012 financial year; they could not be exercised for the first time until 5 July 2016, if the redemption conditions were met. Of these, a total of 3,750 options were forfeited by the end of the 2016 financial year.
Another 15,250 share options were offered to members of the Company and associated firms during the 2013 financial year. It is not possible to exercise them until 10 May 2017, if the redemption conditions are met. 1,750 of these options were forfeited on 31 December 2015.
Each of the options gives the holder the right to exchange the option for a new, no-par value Company share made out to the holder. The shares would be fully entitled to attract profits in the financial year in which they are created.
No other share options can be granted from this contingency capital, as the authorisation for the Management Board for this ended on 14 May 2013.
According to Section 4a Paragraph 4 of the articles of association, the equity capital was conditionally increased by a further EUR 50,000 (contingency capital II), divided into 50,000 individual share certificates. The increase in equity capital is only carried out if holders of share options, which were issued in the period up to 27 June 2017 on the basis of the resolution passed at the annual shareholders' meeting on 28 June 2012, exercise their subscription rights to Company shares and the Company issues new shares to service them.

Members of the Management Board, managers of companies, where GK Software AG has a direct or indirect majority holding ("associated firms"), and managers of the Company and its associated firms are entitled to participate in the share option scheme.
The issue of subscription rights is the responsibility of the Management Board, with the approval of the Supervisory Board.
Each of the options gives the holder the right to exchange the option for a new, no-par value Company share made out to the holder. The shares would be fully entitled to attract profits in the financial year in which they are created.
A share option scheme to make use of contingency capital II came into force during the course of the 2013 financial year. 50,000 options in all were offered to members of the Company and firms associated with it.
Another 10,675 share options were offered to employees at the Company during the 2013 financial year. These can be exercised for the first time on 26 August 2017, if the redemption conditions are met.
Another 14,000 share options were offered to employees at the Company during the 2013 financial year. These can be exercised for the first time on 10 November 2017, if the redemption conditions are met.
Another 3,500 share options were offered to employees at the Company on 28 August 2014. These can be exercised for the first time on 28 November 2018, if the redemption conditions are met. Of these, a total of 3,750 options were forfeited by the end of the 2016 financial year.
A further 21,825 share options were offered to employees from this option scheme on 1 December 2014 during the 2014 financial year. These can be exercised for the first time on 28 February 2019, if the redemption conditions are met. 3,750 of these options were forfeited by the end of the 2016 financial year.
The decision taken at the annual shareholders' meeting on 29 June 2015 authorised the Management Board to issue up to 75,000 share options with subscription rights to GK Software AG shares with a term of up to five years by 27 June 2020, provided that each share option grants the right to subscribe to one GK Software AG share; this may only take place with the agreement of the Supervisory Board. The share options are exclusively for subscription by members of the GK Software AG Management Board, selected managers and other senior employees at GK Software AG and for subscription by members of the management team and selected managers and other leading employees in companies, which are independently associated firms in a relationship with GK Software AG in the sense of Sections 15 and 17 of the German Companies Act.
A share option scheme from contingency capital II was drawn up for the first time in 2015. 5,000 share options were issued to Company employees on 1 November 2015. The share options are subject to a four-year commitment period, so that they cannot be exercised for the first time until 31 October 2019. None of these options were granted to members of the Management Board. 2,500 of these options were forfeited on 31 December 2015.
25,625 options were also issued on 30 November 2015. They are also subject to a four-year commitment period and can therefore not be exercised until 29 November 2019, if the conditions for exercising them are met. 5.000 of these share options were granted to members of the Management Board. 1,125 of these options were forfeited by the end of the 2016 financial year.
31,000 share options were issued again on 29 August 2016. They are also subject to a four-year commitment period and can therefore not be exercised until 28 August 2020, if the conditions for exercising them are met. 10.000 of these share options were granted to members of the Management Board.
A decision taken at the annual shareholders' meeting on 16 June 2016 empowered the Management Board to issue on one or several occasions option and/or convertible bonds, profit participation certificates or participating bonds or a combination of these financial instruments and exclude the subscription rights to these instruments or their combination until 15 June 2021, provided that the Supervisory Board agrees. To underlie this ruling, a decision was also made to create further contingency capital of up to EUR 250,000.00 subdivided into 250,000 no-par shares made out to the holder for this purpose.

6. **Authorised capital.** The Management Board is authorised to increase the Company's nomi-

nal capital on one or more occasions by up to EUR 945,000 by issuing up to 945,000 ordinary shares in accordance with Section 4b of the articles of association until 27 August 2019. In principle, the subscription right must be granted to the shareholders; however, the Management Board has the right to exclude the subscription right to one or several increases in capital as part of authorised capital in order to balance out fractional amounts, or in the case of increases in capital in return for assets in kind, particularly when acquiring companies, if the increase in capital takes place in exchange for cash deposits and the issue price does not fall far below the stock exchange price for shares that have already been issued and the ratio of new shares issued does not exceed 10 percent of the share capital to the exclusion of the subscription right according to Section 186 Paragraph 3 Sentence 4 of the German Companies Act. These new shares may also be offered or transferred to people employed by the Company or by an associated firm in the sense of Section 15 of the German Companies Act.

7. **Share buy-back scheme.** The annual shareholders' meeting in 2013 on 18 June 2013 authorised the Management Board to acquire the Company's own shares up to a total of 10 percent of the Company's equity capital of EUR 1,790,000.00 existing at the time that the decision was made by 17 June 2018, provided that the Supervisory Board agrees to this. Together with the other shares owned by the Company or attributed to it according to Sections 71a ff of the German Companies Act, the acquired shares may not exceed 10 percent of the nominal capital at any time. The authorisation may not be exercised for the purpose of trading with the Company's shares. The Management Board may use the shares acquired as part of the authorisation for any legal purposes, provided that the Supervisory Board approves. The Management Board with the agreement of the Supervisory Board decided on 1 February 2016 to make use of this authorisation and acquire shares with a total value of up to EUR 200 K (excluding any ancillary purchase costs). The programme started on 3 February 2016 and ended on 30 June 2016. No shares were acquired from the programme during its term. GK Software AG and its subsidiaries did not hold any Company shares on the reporting date of 1 February 2016.

8. **Change of control clauses.** The "Software LICENSE AND RESELLER AGREEMENT" between SAP SE and GK Software AG may be terminated by SAP SE for an important reason, if the majority of shares in GK Software are sold to somebody, who is a close rival of SAP SE.

9. **Compensation agreements.** No compensation agreements have been agreed if a takeover offer is made.

10. **Shares with special rights.** Holders of shares with special rights, which grant control authorisation, do not exist, as this class of share does not exist for GK Software AG. There is no control of voting rights for shares held by employees either, where the employees do not directly exercise the control rights.

Explanation on the Company management according to Section 289a of the German Commercial Code

Explanation according to Section 161 of the German Companies Act

The annual declaration on the German Corporate Governance Code according to Section 161 of the German Companies Act has been handed over by the Management Board and the Supervisory Board and has been published on the Company's home page at

https://investor.gk-software.com/de/corporate-governance/entsprechenserklaerung

relevant.

Specifications about management practices

The Company does not have any relevant corporate management practices, which go beyond the statutory requirements or the requirements complying with the German Corporate Governance Code.

Description of the way that the Management Board and the Supervisory Board work

A regular meeting of the Supervisory Board takes place once a quarter The members of the Supervisory Board, however, remain in close contact beyond these meetings and obtain information about the Company's development or events, which could affect the Company's development. Informal meetings between members of the Supervisory Board and members of the Management Board also take place alongside the official, mandatory information provided to the Supervisory Board. The Management Board completes the Company's business in a cooperative manner, but different business areas are assigned to the members of the Management Board. The members of the Management Board report on developments in their business areas at meetings of the Management Board, which normally take place every month. In addition to these meetings, the members of the Management Board remain in mutual contact at all times.

No committees have been formed on either body because of their size. The body speaks with one mind on all issues.

The Management Board

Rainer Glaess
Chief Executive Officer

André Hergert
Chief Financial Officer

C

Consolidated Financial Report

Consolidated Balance Sheet

on 31 December 2016

Assets

T.08

EUR	Notes No.	31.12.2016 (audited)	31.12.2015 (audited)
Property, plant and equipment	2.1.; 3.1.	8,901,911.66	5,752,753.87
Intangible assets	2.2.; 3.2.	23,827,867.37	25,189,562.48
Financial assets	2.4.	6,660.00	1,660.00
Active deferred taxes	2.12.; 3.13.	4,633,639.37	3,523,573.57
Total non-current assets		**37,370,078.40**	**34,467,549.92**
Goods	2.3.; 3.3.	955,799.48	482,464.63
Auxiliary materials and supplies	2.3.; 3.3.	224,437.31	1,172,383.58
Initial payments made	3.3.	44,202.34	56,941.54
Trade accounts receivable	2.5.; 3.4.	18,031,736.01	12,604,882.02
Trade accounts receivable from ongoing work	2.13.; 3.5.	3,480,270.93	6,494,637.81
Income tax claims	2.12.; 3.7.	281,750.19	218,534.41
Accounts receivable with associated firms	3.6.	2,820.45	11,857.30
Other accounts receivable and assets	2.4.; 2.5.; 3.7.	5,206,555.81	4,874,184.15
Cash and cash equivalents	2.6.; 3.8.	6,017,394.86	7,376,753.60
Total current assets		**34,244,967.38**	**33,292,639.04**
Balance sheet total		**71,615,045.78**	**67,760,188.96**

Liabilities

T.09

EUR	Notes No.	31.12.2016 (audited)	31.12.2015 (audited)
Subscribed capital	3.9.	1,890,000.00	1,890,000.00
Capital reserves	2.7.; 3.9.	18,587,965.03	18,364,587.77
Retained earnings	3.9.	31,095.02	31,095.02
Other reserves (OCI from introducing IAS 19 2011, IAS 21)	3.9.	(853,054.50)	(491,252.91)
Profit brought forward		9,172,219.74	10,672,457.83
Shortfall for period		2,825,866.05	(1,500,238.09)
Total equity		**31,654,091.34**	**28,966,649.62**
Provisions for pensions	2.8.; 3.10.	1,766,974.00	1,459,930.00
Non-current bank liabilities	2.9.; 3.11.	8,986,687.12	11,568,035.00
Deferred government grants	2.10.; 3.12.	926,136.83	966,943.09
Deferred tax liabilities	2.12.; 3.13.; 4.9.	3,162,764.06	1,887,700.11
Total non-current liabilities		**14,842,562.01**	**15,882,608.20**
Current provisions	2.11.; 3.14.	1,455,457.83	2,620,599.84
Current bank liabilities	2.9.; 3.11.	5,776,643.68	3,154,528.30
Liabilities from trade payables	2.9.; 3.15.	2,187,040.24	2,091,159.67
Initial payments received	2.9.; 3.16.	269,587.96	4,004,546.59
Income tax liabilities	2.12.; 3.17.	392,446.33	740,615.04
Other current liabilities	2.9.; 3.18.	15,037,216.39	10,299,481.70
Total current liabilities		**25,118,392.43**	**22,910,931.14**
Balance sheet total		**71,615,045.78**	**67,760,188.96**

Consolidated Profit and Loss Statement and Other Results

for the financial year from 1 January to 31 December 2016

Consolidated profit and loss statement

T.10

EUR	Notes No.	31.12.2016 (audited)	31.12.2015 (audited)
Ongoing business operations			
Turnover revenues	2.13.; 4.1.	77,332,612.02	62,602,328.60
Own work capitalised	4.2.	381,689.00	524,894.01
Other operating revenues	4.3.	1,768,668.62	1,725,836.17
Turnover and other revenues		**79,482,969.64**	**64,853,058.78**
Materials expenditure	4.4.	(7,680,693.58)	(8,266,126.59)
Personnel expenditure	4.5.	(47,669,259.45)	(39,667,852.88)
Depreciation and amortisation	3.1.; 3.2.; 4.6.	(3,860,678.44)	(3,452,870.12)
Other operating expenditure	4.7.	(16,329,889.01)	(14,741,782.53)
Total operating expenses		**(75,540,520.48)**	**(66,128,632.12)**
Operating results		**3,942,449.16**	**(1,275,573.34)**
Financial income	4.8.	146,412.73	215,971.32
Financial expenditure	4.8.	(637,160.67)	(323,439.90)
Financial results		**(490,747.94)**	**(107,468.58)**
Income tax results		**3,451,701.22**	**(1,383,041.92)**
Income taxes	2.12.; 4.9.	(625,835.17)	(117,196.17)
Consolidated surplus/ shortfall for the period		2,825,866.05	**(1,500,238.09)**
Other results after income taxes			
Items, which will be reclassified in the consolidated profit and loss statement in future under certain conditions			
Differences in exchange rates from recalculating foreign business operations	1.7.; 4.11.	(76,703.02)	(196,021.46)
Items, which will not be reclassified in the consolidated profit and loss statement in future			
Actuarial gains/ losses from defined benefit pension plans	2.8.; 4.9.	(285,098.57)	(59,036.70)
Overall results		**2,464,064.46**	**(1,755,296.25)**
of which attributable to the owners of the parent company		2,464,064.46	(1,755,296.25)
Earnings per share (EUR/ share) from the consolidated surplus/ shortfall - undiluted	4.10.	**1.50**	**(0.79)**
Earnings per share (EUR/ share) from the consolidated surplus/ shortfall - diluted	4.10.	**1.44**	**(0.79)**

Group Statement of Changes in Equity

on 31 December 2016

Group statement of changes in equity

T.11

EUR	Subscribed capital	Capital reserves	Retained earnings	Other reserves	Consolidated balance sheet profit	Total
Figures on 31 December 2014	**1,890,000.00**	**18,197,887.67**	**31,095.02**	**(236,194.75)**	**10,672,457.83**	**30,555,245.77**
Share option scheme	0.00	166,700.10	0.00	0.00	0.00	**166,700.10**
Allocation based on IAS 19	0.00	0.00	0.00	(59,036.70)	0.00	**(59,036.70)**
Allocation based on IAS 21	0.00	0.00	0.00	(196,021.46)	0.00	**(196,021.46)**
Consolidated profit/ loss for the period	0.00	0.00	0.00	0.00	(1,500,238.09)	**(1,500,238.09)**
Figures on 31 December 2015	**1,890,000.00**	**18,364,587.77**	**31,095.02**	**(491,252.91)**	**9,172,219.74**	**28,966,649.62**
Share option scheme	0.00	223,377.26	0.00	0.00	0.00	**223,377.26**
Allocation based on IAS 19	0.00	0.00	0.00	(285,098.57)	0.00	**(285,098.57)**
Allocation based on IAS 21	0.00	0.00	0.00	(76,703.02)	0.00	**(76,703.02)**
Consolidated surplus/ shortfall for the period	0.00	0.00	0.00	0.00	2,825,866.05	**2,825,866.05**
Figures on 31 December 2016	**1,890,000.00**	**18,587,965.03**	**31,095.02**	**(853,054.50)**	**11,998,085.79**	**31,654,091.34**

Consolidated Cash Flow Statement

on 31 December 2016

Cash flows from operating business

T.12

EUR K	Notes No.	31.12.2016 (audited)	31.12.2015 (audited)
Cash flows from operating business			
Surplus/ shortfall for period		2,826	(1,500)
Share option scheme (non-cash expenditure)		223	167
Income taxes affecting results		626	117
Interest income/ expenses affecting results		491	107
Profit/ loss from the sale or disposal of property, plant and equipment		11	(5)
Reversals of deferred public sector subsidies		(41)	(41)
Write-downs recognised for receivables		483	29
Write-ups recognised for receivables		0	0
Depreciation and amortisation		3,861	3,453
Actuarial gains/ losses		(285)	(59)
Net foreign currency losses		(459)	(196)
Net profits from financial tools assessed at their fair value		212	(184)
Other non-cash revenues and expenditure		—	—
Cash flow from operating business		**7,948**	**1,888**
Changes in net current assets			
Changes in trade accounts receivable and other receivables		(3,479)	(6,736)
Changes in inventories		487	(527)
Changes in trade accounts payable and other liabilities		4,713	4,147
Changes in initial payments received		(3,735)	3,501
Changes in provisions		(888)	729
Interest paid	5.	(475)	(275)
Income taxes paid	5.	(872)	(531)
Net inflow of funds (net outflow in previous year) from operating activities Amount carried forward		**3,699**	**2,196**

Cash flows from investment activities and financing activities, loans and means of payment

T.13

EUR K	Notes No.	31.12.2016 (audited)	31.12.2015 (audited)
Amount carried forward			
Net inflow of funds (net outflow in previous year) from operating activities		**3,699**	**2,196**
Cash flow from investment activities			
Payments for property, plant and equipment and non-current assets		(5,214)	(1,845)
Proceeds from disposals of fixed assets		13	5
Investment subsidies used	3.12.	—	—
Disbursement as part of a company acquisition		(81)	(16,805)
Interest payments received	5.	58	128
Disbursed loans		—	(104)
Proceeds from the repayment of loans		125	38
Net cash outflow for investment activities		**(5,099)**	**(18,583)**
Cash flow from financing activities			
Taking out loans		19	14,107
Repayment of loans		(2,138)	(1,533)
Net inflow (previous year: net outflow) in cash from financing activities		**(2,119)**	**12,574**
Net outflow of cash and cash equivalents		**(3,519)**	**(3,813)**
Cash and cash equivalents at the beginning of the financial year	3.8.	6,360	10,173
Cash and cash equivalents at the end of the financial year	**3.8.**	2,812	6,360
Impact of changes in exchange rates on cash and cash equivalents		(29)	—
Limited available funds	3.8.	1,055	1,037

Cash and cash equivalents

T.14

EUR K	Notes No.	31.12.2016 (audited)	31.12.2015 (audited)
Liquid assets		6,017	7,377
Utilisation of current account credit/ credit card/ exchange rate	2.6.	(3,205)	(1,017)
Cash and cash equivalents at the end of the financial year		**2,812**	**6,360**

Notes on the Consolidated Accounts

for the 2016 financial year

1. Principles of Reporting

1.1. General information

GK Software AG is a public limited 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 of software and hardware and sales and trade in this field.

The Group manages its capital – which not only includes equity, 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.

These goals are monitored by tracking financial indicators (e.g. the equity ratio, capitalisation ratio I, surplus of liquid funds over interest-bearing liabilities) for the target corridors. The aim of maintaining adequate capital is supported by investing cash and cash equivalents in a non-risk manner. Derivative financial instruments are only used to the extent that they are needed to hedge actual business deals.

1.2. Principles of presentation

The GK Software consolidated accounts have been prepared according to the International Financial Reporting Standards (IFRS) as they apply within the European Union (EU) and also the supplementary commercial law requirements according to Section 315a, Paragraph 1 of the German Commercial Code.

Any standards or interpretations, which have been published, but are not yet in force, have not been used for the consolidated accounts. A reliable assessment of the impact caused by their adoption can only be provided after a detailed analysis has been conducted.

The annual accounts for GK Software AG and its subsidiaries are integrated into the consolidated accounts, taking into consideration the standard valuation and accounting policies for the Group accounts.

The consolidated financial accounts have been prepared in euros. The classification of the balance sheet in line with IFRS is carried out according to the maturity of the individual balance sheet items. The profit and loss statement is prepared using the total cost method. GK Software generally presents trade accounts receivable and payable as current items on the balance sheet. Pension obligations are shown as non-current debts in line with their character. Deferred tax claims and liabilities are presented as non-current items.

1.2.1. International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) used

The IFRS covers the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the previous Standing Interpretations Committee (SIC). We have taken into account all the IFRS published by the International Accounting Standards Board (IASB) and adopted by the European Commission for use in the EU, if they are already mandatory and relevant for the GK Group.

1.2.2. International Financial Reporting Standards (IFRS) used for the first time during the reporting period

The following summary shows the new standards and interpretations needing to be applied for the first time during the reporting period and changes to standards and interpretations, which are relevant for the 2016 financial year.

Standards, interpretations and changes to standards and interpretations to be used for the first time in the financial year

T.15

Announcements	Title	Applicability for GK Software from	Probable effects on the presentation of the assets, financial and earnings situation or the cash flow at GK Software.
Changes to IAS 1	Presentation of Financial Statements	1.1.2016	No major effects
Changes to IAS 16 and IAS 38	Property, Plant and Equipment and Intangible Assets	1.1.2016	No major effects
Changes to IAS 16 and IAS 41	Property, Plant and Equipment and Agriculture	1.1.2016	Not relevant.
Changes to IAS 19	Employee Benefits	1.1.2016	No major effects
Changes to IAS 27	Consolidated and Separate Financial Statements	1.1.2016	Not relevant.
Changes to IFRS 10, IFRS 12 and IAS 28	Consolidated and Separate Financial Statements, Investments in Associates	1.1.2016	No major effects
Changes to IFRS 11	Joint Arrangements	1.1.2016	Not relevant.
Clarification	Clarification of IFRS 2010-2012	1.1.2016	No major effects
Clarification	Clarification of IFRS 2012-2014	1.1.2016	No major effects

1.2.3. Published, but not yet mandatory accounting regulations that need to apply

Standards adopted by the EU

T.16

Announcements	Title	Applicability for GK Software from	Probable effects on the presentation of the assets, financial and earnings situation or the cash flow at GK Software.
IFRS 9	Financial Instruments	1.1.2018	No major effects
IFRS 15	Revenue from Contracts with Customers	1.1.2018	GK Software is currently assessing the announcement, but does not expect any major effects on the presentation of the assets, financial and earnings situation or the cash flow.
Changes to IFRS 15	Date when IFRS 15 comes into effect	1.1.2018	GK Software is currently assessing the announcements, but does not expect any major effects on the presentation of the assets, financial and earnings situation or the cash flow.

Standards not yet adopted by the EU[1]

T.17

Announcements	Title	Applicability for GK Software from	Probable effects on the presentation of the assets, financial and earnings situation or the cash flow at GK Software.
Changes to IFRS 10 and IAS 28	Consolidated and Separate Financial Statements	Postponed indefinitely	As the date for implementation has been postponed indefinitely, the changes to IFRS 10 and IAS 28 are not relevant at the moment.
IFRS 14	Regulatory Deferral Accounts	1.1.2016	Not relevant.
Changes to IAS 7	Statement of Cash Flows	1.1.2017	GK Software is currently assessing the announcement, but does not expect any major effects on the presentation of the assets, financial and earnings situation or the cash flow.
Changes to IAS 12	Income Taxes	1.1.2017	No major effects
Clarification	Clarification of IFRS 2014-2016	1.1.2017 (IFRS 12) 1.1.2018 (IFRS 1 and IAS 28)	No major effects
Changes to IAS 40	Investment property	1.1.2018	No major effects
Changes to IFRS 2	Share-based Payments	1.1.2018	No major effects
Changes to IFRS 4	Using IFRS 9 with IFRS 4 Insurance Contracts	1.1.2018	Not relevant.
Changes to IFRS 15	Clarification of IFRS 2014-2016	1.1.2018	GK Software is currently assessing the announcement, but does not expect any major effects on the presentation of the assets, financial and earnings situation or the cash flow. The details of the expected effects are explained after this summary.
IFRIC 22	Foreign Currency Transactions	1.1.2018	GK Software is currently assessing the announcement, but does not expect any major effects on the presentation of the assets, financial and earnings situation or the cash flow.
IFRS 16	Leases	1.1.2019	The standard has major effects on the presentation of the assets, financial and earnings situation. The details of the expected effects are explained after this summary.

1 – The first date of usage envisaged by the IASB is assumed to be the probable time of first usage for any standards not yet adopted by the EU.

IFRS 15 was published in May 2017 and introduces a five-stage model for balancing revenues from contracts. According to IFRS 15, revenues are entered amounting to the equivalent that a company can expect in return for transferring goods or services to a customer (the transaction price in the sense of IFRS 15). The new standard for entering revenues will replace all the rules that currently exist with regard to revenue recognition according to IFRS. Either the full retrospective usage or modified retrospective usage is prescribed for financial years, which start on or after 1 January 2015. Because of the probable record-keeping obligations and the lack of clarity about the effect of these circumstances and particularly logging the circumstances at the moment, we assume that GK Software will use the modified retrospective method. Usage in advance is permissible. We assume that this will not take place at the moment. GK conducted a preliminary assessment of IFRS 15 during the 2016 financial year, which may possibly be changed following a further detailed analysis. GK Software is also taking into account the clarifications published by the IASB in April 2016 and will keep its eye on ongoing developments for interpreting IFRS 15. GK Software is currently assuming that this will have the following effects on the presentation of the assets, financial and earnings situation or the cash flow, which, in its view, are not substantial.

- The licence revenues are currently realised in one amount at the time when the benefits, charges and the risk of loss are transferred. This may change because of the use of IFRS 15 through the fact that licence revenues will in future not be realised at one point in time, but over a period. Following a thorough assessment of the circumstances prevailing in the past, we still assume that the effects of this kind of assessment of circumstances will only affect a small number of cases when it comes to entering the revenues for issuing licences.

- Using IFRS 15 will not be relevant for realising maintenance revenues, according to our current assessment.
- Using IFRS 15 will not be relevant for realising software service revenues, according to our current assessment.
- Using IFRS 15 will not be relevant for realising other revenues, according to our current assessment.

The IASB published IFRS 16 "Leases" in January 2016 and it has major effects on the presentation of the assets, financial and earnings situation at GK Software. The new rules particularly effect the following situations:

- While payment obligations for operating leasing relationships had to be specified in the Notes on the Consolidated Accounts in the past, the rights and obligations arising from these must be entered on the balance sheet as rights of usage and leasing liabilities in future.
- GK Software is expecting increases in the balance sheet total at the time of first usage because of the increase in leasing liabilities and a similarly large increase in fixed assets because of the usage rights needing to be capitalised. The increase in leasing liabilities creates a corresponding increase in net financial liabilities.
- Amortisation and interest expenditure will be entered in the profit and loss statement in place of leasing expenditure in future. This will lead to a significant improvement in the EBITDA.

1.3. Consolidated companies

The consolidated accounts include GK Software and all the companies where GK Software AG has majority voting rights, either directly or indirectly.

The consolidated companies not only include the parent company, but also 1. Waldstraße GmbH, Schöneck and AWEK GmbH, Barsbüttel, and AWEK microdata GmbH, Barsbüttel and six foreign subsidiaries (Eurosoftware s.r.o., Plzen/Czech Republic, StoreWeaver GmbH, Dübendorf/Switzerland, OOO GK Software RUS, Moscow/Russia, GK Software USA Inc., Cape Coral/USA, Raleigh/USA, GK Software (Pty) Ltd, Bryanston/South Africa and TOV Eurosoftware-UA, Lviv/Ukraine). StoreWeaver GmbH, Dübendorf/Switzerland was set up in 2008. 1. Waldstraße GmbH, Schöneck, which was set up in preparation to absorb new business activities, was included in the consolidated companies for the first time in 2009. OOO GK Software RUS, which serves as the instrument for handling business activities performed in the Russian Federation, was founded in 2011 and has been included in the consolidated companies. With notary public deeds dated 10 December 2012, GK Software acquired all the business shares in AWEK GmbH (hereinafter referred to as "AWEK"), which has its headquarters in Barsbüttel near Hamburg. AWEK GmbH, which exercises the holding tasks for the AWEK Group, was the sole shareholder of the AWEK C-POS GmbH, AWEK microdata GmbH and AWEK Hong Kong Ltd companies until 24 August 2015. The AWEK Group was first included in the GK Software consolidated accounts by way of full consolidation from the time of the acquisition on 10 December 2012. AWEK Hong Kong Ltd was dissolved in 2015. GK Software acquired from AWEK GmbH, which it purchased in December 2012, its subsidiaries AWEK C-POS GmbH and AWEK Microdata GmbH in the interests of simplifying the structure of the corporate group with effect from 1 January 2015. AWEK GmbH was subsequently merged with AWEK C-POS GmbH.

GK Software USA Inc., Raleigh/USA, was set up on 20 September 2013 and was included in the GK Software consolidated accounts on the date that it was set up by way of full consolidation for the first time.

GK Software Africa (Pty) Ltd., Bryanston/South Africa was set up on 30 January 2015 and was included in the GK Software consolidated accounts by way of full consolidation for the first time on the date that it was set up.

TOV Eurosoftware-UA, Lviv/Ukraine was set up on 26 January 2016 and was included in the GK Software consolidated accounts by way of full consolidation for the first time on the date that it was set up.

All the firms within the consolidated companies are either directly or indirectly owned solely by GK Software AG.

GK Software AG also has a 50 percent holding in Unified Experience UG (limited liability), Lindlar, which has not started its business operations. GK Software AG does not exercise any control here. The company has not been included in the consolidated accounts as an associated firm for reasons of materiality.

1.4. Principles of consolidation

The consolidated accounts are prepared on the basis of the standard balance sheet and assessment methods used within 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 of taxes on profits have been taken into account in the consolidation procedures that affect the results and deferred taxes have been included in the calculations.

1.5. Subsidiaries

The Group accounts includes the accounts of the parent company and the companies that it controls, including structured companies (its subsidiaries). The Company obtains control if it:

- can exercise authority to dispose of the holding company,
- is exposed to fluctuating profits arising from its holding, and
- can affect the amount of profits because of its powers of disposal.

The Company conducts a reassessment, whether it controls a holding company or not, if facts and circumstances indicated that one or several of the aforementioned three criteria regarding control have changed.

If the Company does not own majority voting rights, it still controls the holding company if it has the practical possibility of unilaterally determining the substantial activities of the holding company through its voting rights. When assessing whether its voting rights are sufficient for its decision-making power, the Company takes into account all the facts and circumstances, including:

- the scope of the voting rights that the Company owns in relation to the scope and distribution of the voting rights or other holders of voting rights;
- potential voting rights for the Company, other holders of voting rights and other parties;
- rights arising from other contractual agreements; and
- other facts and circumstances, which indicate that the Company has or does not have a current opportunity to determine the substantial activities at the time when decisions have to be made, taking into consideration the voting behaviour at previous annual shareholders' meeting or other such meetings.

A subsidiary is included in the consolidated accounts from the time that the Company obtains control over the subsidiary until the time when control by the Company ends. The results of the subsidiaries acquired or sold during the course of the year are entered in the Group profit and loss statement and the other Group results in line with the actual time of acquisition or until the actual time of the disposal.

The profits or losses and each element of the other results must be assigned to the shareholders of the parent company and the non-controlling shareholders. This applies even if this creates a situation where the non-controlling shareholders have a negative balance.

If necessary, the annual accounts of the subsidiaries are adapted to adapt the balance sheet and assessment methods to the methods that are used within the Group.

All the assets, debts, equity, revenues, expenditure and cash flows internally related to the Group in conjunction with the business transactions between Group companies are completely eliminated as part of the consolidation process.

1.6. Corporate mergers

The acquisition of business operations is entered on the balance sheet according to the acquisition method. The initial consolidation takes effect from the day on which GK Software directly or indirectly gains control over the Group company. The inclusion ends at the time when the control of the Group company is transferred to a company outside the Group. The equivalent transferred during a corporate merger is assessed at the fair value, which consists of the total fair value of the transferred assets at the time of the acquisition, the liabilities taken over from the former owners of the acquired company and the equity instruments issued by the Group in exchange for full control of the acquired company (if relevant). Any costs associated with the corporate merger must in principle be entered to affect net income when they are incurred.

The acquired identifiable assets and liabilities that are taken over must be measured at their fair value. The following exceptions apply:

Deferred tax claims or deferred tax liabilities and assets or liabilities in conjunction with agreements for benefits to employees must be entered and assessed according to IAS 12 “Income Taxes” or IAS 19 “Employee Benefits”.

The goodwill relates to the surplus arising from the total of the transferred equivalent, the amount of all the shares that have not been fully taken over in the acquired company, the fair value of the equity share previously held by the acquirer in the acquired company (if relevant) and the balance of the existing fair values in the acquired identifiable assets at the time of the acquisition and of the liabilities and contingent liabilities that have been taken over. During the periods following the corporate merger, the disclosed hidden reserves and hidden liabilities are continued, amortised or cancelled in line with the way that the corresponding assets are treated.

If, after another assessment, the share to be apportioned to the Group of the fair value of the acquired, identifiable net assets is larger than the total from the transferred equivalent, the amount of the non-controlling shares in the acquired company and the fair value of the equity share previously held by the acquirer in the acquired company (if relevant), the excess amount is entered directly as profit to affect the net income (in the profit and loss statement). This kind of difference in liabilities did not occur during the financial year.

If the initial entering of a merger on the balance sheet at the end of the financial year, in which the merger takes place, is incomplete, the Group shall enter preliminary figures for the items where the balance sheet figures are incomplete. The amounts provisionally assessed must be corrected during the assessment period or additional assets or liabilities must be assessed in order to reflect the new information about facts and circumstances, which existed at the time of acquisition and which would have influenced the assessment of the amounts entered on the reporting date, had they had been known.

1.7. Currency conversions

When preparing the accounts of each individual consolidated company, any business transactions, which are made in other currencies than the Group’s functional currency (foreign currencies), will be converted using the exchange rates valid on the day of the transaction. Monetary items in a foreign currency are converted using the valid exchange rate on the reporting date for the accounts. Non-monetary items in foreign currencies, which are assessed at their fair value, are converted using the exchange rates, which applied at the time when the fair value was determined. Non-monetary items assessed at their procurement or production costs are converted using the exchange rate at the time when they are first entered on the balance sheet.

Any conversion differences arising from monetary items are entered in the period in which they are incurred. The following are excluded from this process:

- Conversion differences from the inclusion of outside funds in foreign currencies, which occur in the preparation process for assets that are envisaged for productive use. They are assigned to the production costs, if they represent adjustments to the interest expenditure arising from the inclusion of outside funds in foreign currencies.

- Conversion differences from business transactions in order to safeguard particular foreign currency risks (see the guidelines on entering hedging relations in section 3.19).

- Conversion differences from monetary items to be received or to be paid to/from a foreign business operation, the fulfilment of which is neither planned nor probable and is therefore part of the net investment in this foreign business operation, are initially entered under “Other results” and are reclassified from equity to the profit and loss statement when sold.

In order to prepare the Group accounts, the assets and debts from the foreign business operations within the Group are converted into euros (EUR) and the valid exchange rates on the reporting date for the accounts are used. Revenues and expenditure are converted at the average exchange rate during the period, unless the conversion rates were subject to major fluctuations during the period. In this case, the conversion rates are used at the time of the transaction. Conversion differences from the conversion of foreign business operations into the Group’s currency are entered under “Other results” and accumulated under equity.

Any goodwill accruing from the acquisition of a foreign business operation and adjustments to the fair values of the identifiable assets and debts are treated as assets or debts for the foreign business operations and converted on the exchange rate valid on the reporting date. Any resulting conversion differences are entered under “Equity”.

2. Balance Sheet and Assessment Principles

The consolidated accounts have been prepared on the basis of historical purchase and production costs: certain property and financial instruments are excluded from this, if they were assessed with the amount of their new value or with the fair value on the balance sheet reporting date. A relevant explanation is found as part of the particular balance sheet and assessment methods.

Historical purchasing or production costs are generally based on the fair value of the equivalent paid in exchange for the asset.

The fair value is the price, which would be acquired for the sale of an asset between the market participants or paid for the transfer of a debt in an orderly business transaction on the assessment date. This is valid, regardless of whether the price was directly observable or was estimated using an assessment method.

When determining the fair value of an asset or a debt, the Group takes into account particular features of the asset or the debt (for example, the condition and location of the asset or sales and usage restrictions), if market participants would also take into account these features when setting the price for the acquisition of the particular asset or when transferring the debt on the assessment date. The fair value for assessment purposes and/or the obligation to specify details is determined on this basis in these consolidated accounts as a matter of principle. The following are excluded from this process:

- Share-based payments covered by IFRS 2 Share-based Payments,
- Leasing relationships, which come under the area covered by IAS 17 Leases,
- Assessment standards, which are similar to fair value, but do not correspond to it, e.g. the net sales value in IAS 2 Inventories or the value in use in IAS 36 Impairment of Assets.

The fair value is not always available as a market price. If often has to be determined on the basis of different assessment parameters. Depending on the availability of observable parameters and the significance of these parameters for determining the fair value overall, the fair value is assigned to the stages 1, 2 or 3. The subdivision takes place according to the following proviso:

- The input parameters in stage 1 are listed prices (unadjusted) at active markets
- for identical assets or debts, which the Company can access on the assessment reporting date.
- The input parameters in stage 2 are different input parameters to the prices listed in stage 1,
- which are either directly observable for the asset or the debt
- or can be derived from other prices indirectly.
- The input parameters in stage 3 are parameters that are not observable for the asset or the debt.

The main balance sheet and assessment principles are explained below.

2.1. Property, plant and equipment

The balance sheet values for 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 temporis fashion in line with their economic serviceable life.

The depreciation on buildings is made in a linear fashion over a period of use of 15 – 40 years. Movable fixed assets are depreciated in a linear fashion as a matter of principle; the period of use varies between three and fourteen years.

The estimated periods of use, the carrying amounts and the depreciation methods are checked on each balance sheet date and, if necessary, the effect of possible changes to the means of assessment is entered prospectively.

Fully depreciated property, plant and equipment assets are shown with historical 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 cancelled from the books and the results of disposing of assets (disposal revenues minus residual carrying amounts) are shown in the profit and loss 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 with their purchasing or production costs minus any accumulated amortisation and write-downs. The scheduled amortisation expenditure is entered as expenditure in a linear fashion to cover the expected useful serviceable life of between three and five years. The expected useful serviceable life and the method of amortisation are checked at least at the end of each financial 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 capitalised if the following evidence can be provided accumulatively:

- The technical feasibility of the completion of the intangible asset exists in order to make it available for use or for sale
- The Company intends to complete the intangible asset and use it or sell it.
- There is a capability for using or selling the intangible asset if the intangible asset will provide probable future economic value
- Adequate technical, financial or other resources are available to complete the development and be able to use or sell the intangible asset and
- It is possible to reliably determine the expenditure that can be allocated within the framework of developing the intangible asset.

The amount used to capitalise this kind of intangible asset, which has been developed in-house, is the total amount of expenditure that was incurred from the day when the intangible asset cumulatively met the conditions outlined above for the first time. The costs directly attributable to a software product cover the personnel costs for the employees involved in the development work and appropriate parts of the relevant overheads.

If the capitalisation conditions are not met, the development costs are entered to effect net income in the period, in which they are incurred. Any development costs already entered as expenditure are not capitalised during the following period.

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 amortisation and write-downs. Scheduled amortisation starts in the year of capitalisation with the pro rata temporis amount and it uses the linear method over a period of five years as a matter of principle.

2.2.3. Goodwill

The goodwill resulting from corporate mergers is entered on the balance sheet at its procurement costs minus any necessary write-downs. When allocating the 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 capitalised assets. This mainly involved the expertise of the Solquest GmbH members of staff in the field of the merchandise management system and processes.

Following the acquisition of the AWEK Group in 2012, an intangible asset entitled “goodwill” was created as that part of the purchase price, which cannot be attributed to assets that can be capitalised, when allocating the purchase price. This too mainly concerns the expertise of Group employees in matters related to operating an IT services organisation.

The acquisition of the retail segment of the American company DBS Data Business Systems Inc. created the first formation of a “goodwill” intangible asset as that part of the purchase price, which cannot be assigned to capitalised assets, in 2015, when allocating the purchase price. This mainly involved the expertise of the DBS Data Business Systems Inc. members of staff who were transferred with regard to its software solutions.

GK Software summarises assets, which cannot be checked individually as part of the intrinsic value tests, in the smallest group of assets, which generates an inflow of cash from ongoing use; this cash is largely independent of that of other assets or groups of assets. If assets do not generate any inflow of cash, which is largely independent of other assets or other groups of assets, GK Software does not check the intrinsic value on the level of the individual asset, but on the level of the unit generating the cash and cash equivalents, to which this asset belongs. Any goodwill acquired before 1 January 2015 was partly assigned to the product-related cash-generating unit, “StoreWeaver Enterprise Edition”, and partly to the “IT Services” cash-generating unit on 31 December 2016. The goodwill acquired in 2015 was allocated to the “TransAction+Products and Services” cash-generating unit.

The goodwill amounts are checked for their intrinsic value at least once a year. If any events or circumstances indicate that the fair value may have been reduced, another check takes place. Any reduction would be determined by identifying the expected, achievable amount for the units that generate the cash and cash equivalents. If this amount falls below the carrying amount of the unit, including the assigned goodwill, impairment expenditure is directly entered in the profit and loss statement and may not be reversed in 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 of a “customer base” intangible asset for the first time when allocating 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.

An asset entitled “Customer base” was also identified when acquiring the business shares of AWEK GmbH in 2012. Some of the group’s customers have had business relations with it for years and they are mainly medium-sized German retailers. The customer list includes companies like the Bartels-Langness group (brands like “famila,” “MARKANT,” “nah & frisch” and others). The customer base also includes “Dehner,” one of the largest horticultural companies – and “Globus” and the books wholesaler “KNV”. In addition to this, AWEK also works for companies which are already GK Software customers, such as “EDEKA,” “valora”, “Hornbach”, “MPreis”, “Manufactum” and “Fressnapf”.

The purchase of part of the operating business of DBS Data Systems Inc. by GK Software USA Inc. led to the formation of a “customer base” intangible asset when allocating the purchase price in 2015 too. 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 scheduled amortisation is normally entered in a linear fashion for the expected period of use (see section 2.14). The expected period of use and the amortisation method are checked on each reporting date and all the changes to estimates are taken into account prospectively. 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.

We have normally estimated the period of use of existing customer relationships at 10 years (see section 2.14). The estimate is derived from the average period of use of the solutions sold by the Group - i.e. 10 - 15 years, the introductory expenditure for these systems and their flexible extension, but considerable expertise is required to use them, however. The high reputation of the unit taken over also allows customer relations to be serviced for a longer period, particularly as the employees permanently work with the requests for expansion and changes from these existing customers.

2.2.5. Write-downs on property, plant and equipment and intangible assets apart from goodwill

On each reporting date, the Group checks the carrying amounts for 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 can be recognised, 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 estimate of 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 recoverable 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 recoverable 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 to affect net income.

2.2.6. Intangible assets acquired as part of a corporate merger

Intangible assets, which have been acquired as part of a company merger, are entered separately from the goodwill and are assessed with their fair value at the time of the acquisition.

During the following periods, intangible assets, which were acquired as part of a company merger, are assessed in the same way as individually acquired intangible assets using their procurement costs minus any accumulated amortisation and any accumulated write-downs.

2.2.7. Writing off intangible assets

An intangible asset must be written off if it is withdrawn or if no further economic use is expected from its use or its withdrawal. The profit or loss from the write-off of an intangible asset, assessed with the difference between the net sale price and the carrying amount of the asset, is entered in the profit and loss statement at the time when the asset is written off. The entry is made under “Other income” or “Other expenditure”.

2.3. Inventories

The following assets are entered as assets, if they are:

- set to be used as ancillary or working materials or purchased goods for consumption when producing something or providing a service,
- being produced for this kind of sale or
- kept for sale in normal business procedures.

The ancillary and working materials comprise installation items and other components for checkout systems.

The inventories are assessed based on their purchase or production costs or a lower net sales value. The purchase or production costs contain all the costs of purchase, processing and workmanship and any other costs that occur in order to transport the inventories to their current location in their current state (IAS 2.10). As a result, the inventories embrace both the individual costs and the attributable overheads (mainly depreciation).

2.4. Financial assets

Financial liabilities must be entered if a Group company becomes a contractual party to a financial instrument.

Financial assets must be assessed at their fair value when they accrue. Any transaction costs, which must be directly attributed to the issue of financial assets and which are not assessed at their fair value to affect the net income, increase the fair value of the financial assets when they are incurred. Any transaction costs, which must be directly attributed to the acquisition of financial assets and which are assessed at their fair value to affect the net income, are directly entered in the consolidated profit and loss statement.

The assignment of financial assets takes place in the following categories:

- financial assets assessed at fair values to affect income
- financial investments to be retained until their final due date
- Financial assets available for sale
- Loans and accounts receivable.

The assignment depends on the type and intended use of the financial assets and takes place when they accrue. The entry and the withdrawal of financial assets takes place on the trading day, if the transaction involves financial assets, the supply of which takes place within the normal time period for the market concerned.

Bank assessments have been used to determine the fair value of derivative assets (interest and currency swaps).

2.5. Trade accounts receivable and other accounts receivable, assets and receivables based on ongoing work

Accounts receivable and other assets (in the loans and accounts receivable category) are generally assessed according to the effective interest method for amortised purchase costs minus any value adjustments. As they do not normally contain any interest share, they must be recorded on the balance sheet at their nominal value minus any value adjustments for irrecoverable accounts receivable.

Financial assets, with the exception of financial assets assessed at their fair value and affecting the results, are checked to see whether they have any possible write-down indications on the balance sheet date. Financial assets are viewed as impaired if there is an objective indication that the expected future cash flows from the financial assets may have changed in a negative direction as a result of one or several events, which occurred after the initial setting of the value of the asset.

Any write-down leads to a direct reduction in the carrying amount of all the affected financial assets, with the exception of trade accounts receivable, where the carrying amount is reduced by an impairment account. If an impaired trade account receivable is believed to be irrecoverable and its value is corrected, it is entered in the impairment account. Any subsequent receipts on sums already entered as value adjustments are also entered against the impairment account. Any changes to the carrying amount in the impairment account are entered through the profit and loss statement to affect net income.

If the outcome of a manufacturing order can be reliably assessed, the revenues and the costs, which arise in connection with this manufacturing order, are entered according to the percentage of completion of work on the balance sheet date and are shown as accounts receivable from ongoing work. The percentage of completion is determined on the basis of the order costs that have arisen from the work already performed in proportion to the expected order costs. Changes in the contracted work, claims and performance bonuses are included to the extent that their amount can be reliably determined and it is deemed that they will probably be received.

If the outcome of a manufacturing order cannot be reliably assessed, the revenues are only entered according to the amount of order costs that have already been incurred and can probably be recovered. Costs for orders are entered as expenditure during the period, in which they are incurred.

If it is likely that the total costs for orders will exceed the total revenues from orders, the expected loss is immediately entered as expenditure.

If the order costs incurred by the reporting date plus accrued gains and less recognised losses exceed the milestone invoices, the excess is entered as a manufacturing order with a credit balance due from the customer. For contracts in which the milestone invoices exceed the order costs incurred plus accrued gains and less recognised losses, the excess is entered as a manufacturing order with a debit balance due from the customer. Amounts received before the work has been performed are entered as liabilities under "Advance payments received". Invoiced amounts for services, which have already been provided and which have not yet been paid for by the customer, are included in the consolidated balance sheet under "Trade accounts receivable".

2.6. Cash and cash equivalents

Cash and cash equivalents are entered at their nominal value. The cash equivalents include demand deposits and fixed deposits with an original due date of no more than three months.

2.7. Equity

2.7.1. Explanation of the item

An equity instrument is a contract, which provides the grounds for a residual claim to the assets of a company after the deduction of all the associated debts. Equity instruments are entered at the expenditure revenue received minus any directly attributable issue costs. Issue costs are those, which would not have been incurred if the equity instrument had not been issued.

Any buy-backs of equity instruments are directly deducted from the equity capital. No purchases or sales, issues or withdrawals of equity instruments are entered in the profit and loss statement.

Any outside or in-house equity instruments issued by a Group company are classified according to the economic substance of the contractual arrangement and the definitions as financial liabilities or equity.

2.7.2. Share-based payments

Share-based payments with compensation through equity instruments to employees and others, who provide comparable services, are assessed at the fair value of the equity instrument on the day that it is granted. Further information about determining the fair value of the share-based payments with compensation through equity instruments is shown below.

The fair value determined when granting the share-based payments with compensation through equity instruments is entered in linear fashion over the period until its non-forfeiture as expenditure with a corresponding increase in equity (provision for benefits to employees provided in equity) and is based on the Group's expectations with regard to the equity instruments, which were probably non-forfeitable. The Group must check its estimates regarding the number of equity instruments, which become non-forfeitable, on each reporting date for the accounts. The effects of the changes to the original estimates must be entered to affect the net income, if they exist. The entry takes place in such a way that the total expenditure reflects the change in estimate and leads to a relevant adaptation of the reserve for benefits to employees with compensation through equity instruments.

Share-based payments with compensation through equity instructions to employees and different parties are assessed at the fair value of the goods or services received, unless the fair value cannot be reliably determined. In this case, they are assessed at the fair value of the equity instruments granted at the time when the Company receives the goods or the opposing party provides the services. In the case of share-based payments with cash compensation, a liability is entered for the goods or services obtained and is assessed at the fair value when they accrue. Until the debt is settled, the fair value of the debt is newly determined on each reporting date for the accounts and on the settlement date and all the changes to the fair value are entered to affect the net income.

2.7.3. Share option scheme

GK Software has continued to develop since 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 firms. 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 scheme to supplement their normal remuneration.

According to Section 4a Paragraphs 1 and 2 of the articles of association, the Management Board was entitled, with the agreement of the Supervisory Board, to grant one or several subscription rights to as many as 37,000 individual shares (contingency capital I) to members of the Management Board, managers of companies, where GK Software AG has a direct or indirect majority holding ("associated firms") and managers of the Company and its associated firms as part of the share option scheme by 14 May 2013. This authorisation has now expired. Each of the options gives the holder the right to exchange the option for a new, no-par value Company share made out to the holder. The shares would be fully entitled to attract profits in the financial year in which they are created. The subscription right is not transferable and is subject to conditions of exercise, which are identical for employees entitled to them.

16,175 share options in all were offered to members of the Company and associated firms during the 2012 financial year. During the course of the 2013 financial year, 2,375 of these options were forfeited, as the exercise conditions were missed during their term. A further 1.375 options were forfeited during the course of 2015 (250 options) and 2016 (1,125 options).

Another 15,250 share options were offered to members of the Company and associated firms during the 2013 financial year. 250 of these options were forfeited in 2015 and 1,500 in 2016. Previously forfeited options were reissued.

No other share options can be granted from contingency capital I, as the Management Board's authorisation for this ended on 14 May 2013.

According to Section 4a Paragraph 4 of the articles of association, the equity capital was conditionally increased by a further EUR 50,000 (contingency capital II), divided into 50,000 individual share certificates. The increase in equity capital is only carried out if holders of share options, which were issued in the period up to 27 June 2017 on the basis of the resolution passed at the annual shareholders' meeting on 28 June 2012, exercise their subscription rights to Company shares and the Company issues new shares to service them. Members of the Management Board, managers of companies, where GK Software AG has a direct or indirect majority holding ("associated firms") and managers of the Company and its associated firms are entitled to participate in the share option scheme. The issue of subscription rights is the responsibility of the Management Board, once approval has been obtained from the Supervisory Board. Each of the options gives the holder the right to exchange the option for a new, no-par value Company share made out to the holder. The shares would be fully entitled to attract profits in the financial year in which they are created. A share option scheme to make use of contingency capital II came into force during the course of the 2013 financial year. 50,000 options in all were offered to members of the Company and firms associated with it.

10,675 and a further 14,000 share options were offered to members of the Company during the 2013 financial year. 3,500 options and a further

21,825 share options were offered to members of the Company during the 2014 financial year.

1,500 options from the option programme covering 3,500 options were forfeited in 2016.

3,750 options from the option programme covering 21,825 options were forfeited in 2015.

The decision taken at the annual shareholders' meeting on 29 June 2015 empowered the Management Board to issue up to 75,000 share options (contingency capital III) with subscription rights to GK Software AG shares with a term of up to five years until 27 June 2020, provided that each share option grants the right to subscribe to one GK Software AG share; this may only take place with the agreement of the Supervisory Board. The share options are exclusively for subscription by members of the GK Software AG Management Board, selected managers and other senior employees at GK Software AG and for subscription by members of the management team and selected managers and other leading employees in companies, which are independently associated firms in a relationship with GK Software AG in the sense of Sections 15 and 17 of the German Companies Act.

30,625 share options were offered to employees of the Company and associated firms during the 2015 financial year. Of these, a total of 3,625 options were forfeited by the end of the 2016 financial year.

31,900 share options were offered to employees of the Company and associated firms during the 2016 financial year.

Development of outstanding options that have been exercised and lapsed or forfeited

T.18

	Number of options
Options outstanding on 1 January 2015	87,000
Options granted during the course of the 2015 financial year	30,625
Options lost during the reporting period	(4,625)
Options expiring during the reporting period	(7,950)
Options outstanding on 31 December 2015	105,050
Exercisable options on 31 December 2015	0
Options outstanding on 1 January 2016	105,050
Options granted during the course of the 2016 financial year	31,900
Options lost during the reporting period	(7,375)
Options expiring during the reporting period	0
Options outstanding on 31 December 2016	129,575
Exercisable options on 31 December 2016	12,425

We would refer to the following summaries to provide an overview of the individual share option schemes.

Options granted and obstacles to exercising them

T.19

Issue date	Issue options	of which forfeited	of which lapsed	Options remaining	Exercise price	Exercise period	End of exercise period
	Number	Number	Number	Number	EUR	Years	
06.07.2012	16,175	3,750	0	12,425	39.14	4 1/4	05.07.2016
10.05.2013[1]	15,250	1,750	0	13,500	26.12	4 1/4	09.05.2017
Contingency capital				**25,925**			
27.08.2013	10,675	0	0	10,675	25.42	4 1/4	26.08.2017
11.11.2013	14,000	0	0	14,000	25.02	4 1/4	10.11.2017
28.08.2014	3,500	1,500	0	2,000	41.78	4 1/4	27.08.2018
01.12.2014	21,825	3,750	0	18,075	37.77	4 1/4	01.12.2018
Contingency capital				**44,750**			
01.11.2015[1]	5,000	2,500	0	2,500	28.62	4 1/4	01.11.2019
30.11.2015[1]	25,625	1,125	0	24,500	33.98	4 1/4	30.11.2019
29.08.2016	31,900	0	0	31,900	45.98	4 1/4	28.08.2020
Contingency capital				**58,900**			
Total amount				**129,575**			

1 – Change to previous year's figures

Currency rates, interest rates and volatility

T.20

Issue date	Term from issue date	Stock exchange price on assessment date	Retention period	Risk-free interest rate	Volatility	Shares for Management Board	Total value
	Years	EUR	Years	in %	in %	Number	EUR
06.07.2012	4 1/2	39.50	4	0.24	43.42	3,000	148,217.83
10.05.2013	4 1/2	28.25	4	0.24	39,49	—	84,118.50
27.08.2013	4 1/2	25.60	4	0.63	36,56	—	65,832.73
11.11.2013	4 1/2	27.90	4	0.44	32,17	10,000	87,360.00
28.08.2014	4 1/2	43.99	4	0.10	30,01	—	18,358.00
01.12.2014	4 1/2	35.80	4	0.02	29,50	6,000	116,041.50
01.11.2015[1]	4 1/2	30.50	4	(0.17)	29,37	—	16,332.50
30.11.2015[1]	4 1/2	37.80	4	(0.29)	27,70	5,000	203,399.00
29.08.2016	5	44.20	4	(0.60)	31,64	10,000	293,543.80

1 – Change to previous year's figures

Distribution of expenditure entered

T.21

Issue date	Fair value/ option	Probable average exercise period on the balance sheet reporting date	Assumed annual dividend per share	Distribution of expenditure entered	of which Management Board
	EUR	Months	EUR	EUR	EUR
06.07.2012	11.929	0	0.50	18,972.00	9,161.53
10.05.2013	6.231	4	0.50	16,893.68	—
27.08.2013	6.167	8	0.50	13,358.52	—
11.11.2013	6.240	11	0.50	17,519.37	14,390.91
28.08.2014	9.179	20	0.50	3,678.69	—
01.12.2014	6.420	23	0.50	33,246.12	11,036.06
01.11.2015	6.533	34	0.50	5,041.96	—
30.11.2015	8.302	35	0.50	49,411.24	10,083.93
29.08.2016	9.202	44	0.50	65,255.67	20,456.32
Total amount				**223,377.25**	**65,128.75**

The process of determining the fair values per option took place on the basis of 10,000,000 simulations. The total value per share option scheme was determined by taking into account each option. This figure must be entered as personnel expenditure on a pro-rata basis for the elapsed qualifying period and assigned to the capital reserves.

Overall, personnel expenditure of EUR 223,377.25 was entered for the share options that were issued during the financial year. The weighted average terms for the options amounted to 1½ years.

2.8. Statutory provisions for pensions

The costs for providing benefits in the case of defined benefit pension plans are determined using the projected unit credit method, where an actuarial assessment is conducted on each balance sheet date. Any new assessments, consisting of actuarial gains and losses, changes, which are the result of the use of the upper asset threshold and the revenues from the plan assets (without any interest on the net debt), are entered directly under "Other income" and therefore form a direct part of the balance sheet. The new assessments entered under "Other income" form part of the other provisions and are no longer reclassified in the profit and loss statement. Any past service costs are entered as expenditure when the change of plan comes into effect.

The net interest is the result of multiplying the discount rate with the net debt (pension obligation minus the plan assets) or with the net asset value, which occurs at the start of the financial year, if the plan assets exceed the pension obligation. The defined benefit costs contain the following elements:

- Past service costs (including current service costs, past service costs to be calculated subsequently and any gains or losses from the change to or reduction of the plan),
- Net interest expenditure or revenues on the net debt or the net asset value,
- A new assessment of the net debt or the net asset value.

The Group reports the first two elements in the profit and loss statement under "Personnel expenditure" and "Financial expenditure" or "Financial revenues". Any gains or losses from plan reductions are entered on the balance sheet as "Past service costs" to be calculated subsequently.

The defined benefit obligation entered in the consolidated accounts represents the current shortfall or excess in cover for the Group's defined benefit pension plans. Any excess cover, which accrues as a result of this calculation, is restricted to the cash value of any future economic benefit, which is available in the form of repayments from the plans or reduced future contributions to the plans.

Payments for defined benefit pension plans are entered as expenditure if the employees have performed the work, which entitles them to the contributions.

2.9. Financial liabilities

Financial liabilities are entered if a Group company becomes a contractual party to a financial instrument. They are either categorised as financial liabilities assessed at their fair value and affecting the net income or as other financial liabilities.

Financial liabilities must be assessed at their fair value when they are incurred. Any transaction costs, which must be directly attributed to the issue of financial liabilities that are not assessed at their fair value and do not affect the net income, reduce the fair value of the financial liabilities when they are incurred. Any transaction costs, which must be directly attributed to the issue of financial liabilities that are assessed at their fair value and affect the net income, are directly entered in the profit and loss statement.

2.9.1. Financial liabilities assessed on the balance sheet at fair values

Financial liabilities are categorised as financial liabilities assessed at their fair value to affect the net income if they are a contingency counter-performance of an acquiring party during a corporate merger, for which IFRS 3 Corporate Mergers applies, or if they are kept for trading purposes or were designated as affecting net income after having been assessed at their fair value.

A financial liability is categorised as being kept for trading purposes if:

- it has been mainly acquired with the purpose of being resold in the near future,
- during the first valuation, it is part of a portfolio of clearly identified financial instruments jointly managed by the Group, for which information exists on short-term profit-taking in the more recent past, or
- it is a derivative, which is not designated as a hedging instrument and is effective and does not represent a financial guarantee either.

A financial liability kept for other reasons than trading purposes can be designated as affecting the net income when assessed at its fair value at the time of its first usage if:

- this kind of designation eliminates or significantly reduces any assessment or valuation consistency, which would otherwise occur,
- a Group's financial liability is part of financial assets and/or financial liabilities, which is managed and assessed in line with the Group's documented risk or investment management strategy on the basis of fair values and for which the internal flow of information is based on this, or
- it is part of a contractual arrangement, which contains one or several embedded derivatives and IAS 39 financial instruments: the valuation and assessment allows a designation of the complete agreement (asset or liability) as assessed at its fair value.

Financial liabilities designated as assessed according to their fair value are assessed at fair values. All the profits or losses resulting from the assessment are credited to net income here. The net profits entered in the Group's profit and loss statement include the interest paid for the financial liability and are entered in the "Other income/Other expenditure" item. The definition of fair value is described in section 8.1.1.

2.9.2. Other financial liabilities

Other financial liabilities, for example, loans taken out, trade accounts payable and other liabilities, are assessed in line with the effective interest method for amortised purchase costs. The effective interest method is a method for calculating amortised purchase costs on a financial liability and attributing interest expenditure to the relevant periods. The effective interest method is the rate of interest, with which the estimated future payments – including all the fees and paid or received charges, which are an integral part of the effective interest rate, transactions and premiums or discounts – are discounted to the net carrying amount of the initial entry over the expected term of the financial instrument or over a shorter period.

2.9.3. Removing financial liabilities from the accounts

The Group removes a financial liability from the accounts if the relevant obligation has been settled, cancelled or has lapsed. The difference between the carrying amount of the financial liability removed from the accounts and the equivalent obtained or to be obtained is entered in the Group's profit and loss statement.

2.10. 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 also actually granted.

Public sector subsidies must be entered as expenditure according to schedule in the Group's profit and loss statement, particularly during the course of the periods when the Group values the corresponding expenditure, which the public-sector subsidies are supposed to compensate for. 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 results 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 to affect the net income during the period in which the claim for their entitlement arose.

2.11. Provisions

Provisions are formed if the Group has a current obligation (of a legal or factual nature) from a past event and it is likely that the meeting of the obligation is related to an outflow of resources and a reliable estimate of the amount of the provision is possible.

The assessed amount of the provision is the best estimated value, which is the result of the remuneration required to settle the current obligation on the reporting date of the accounts. Inherent risks in the obligation and uncertainties must be taken into consideration here. If a provision is assessed on the basis of the flows of funds estimated to meet the obligation, these flows of funds must be discounted if the interest effect plays a major role.

If it can be assumed that parts of or the complete economic benefit required to meet the provision will be repaid by an outside third party, this claim shall be capitalised as an asset if the repayment is as good as certain and its amount can be reliably estimated.

2.11.1. Onerous contracts

Current obligations, which arise in conjunction with onerous contracts, shall be entered as a provision. The existence of an onerous contract is assumed if the Group is a contract partner in an agreement, from which there is an expectation that the unavoidable costs of meeting the agreement will exceed the economic benefits accruing from this contract.

2.11.2. Warranties

Provisions for the expected expenditure arising from warranty obligations according to national purchase contract law shall be assessed at the sale time for the products concerned according to the best estimate of management with regard to the necessary expenditure to meet the Group's obligation.

2.11.3. Severance payments

A debt for benefits arising from the ending of an employment relationship shall be entered if the Group can no longer withdraw the offer of these kinds of benefits or, if earlier, the Group has entered associated costs for restructuring in the sense of IAS 37.10.

2.12. Income taxes

The expenditure/earnings on income tax represent the account balance for current tax expenditure and deferred taxes.

Current or deferred taxes are entered as expenditure or earnings in the Group's profit and loss statement, unless they relate to items that were directly entered under "Other income" or under "Equity". In this case, the current or deferred tax is also entered under "Other income" or directly under "Equity". If current or deferred taxes result from the first time that a corporate merger is entered on the balance sheet, the tax effects shall be included in the balance sheet entries of the corporate merger.

2.12.1. 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 profit and loss statement, as it excludes expenditure and revenues that 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 at the expected time of taxation from the point of view of the balance sheet date.

2.12.2. Deferred taxes

Deferred taxes are entered to cover the temporary 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 balance sheet liability method. Deferred tax debts are entered on the balance sheet for all temporary differences in taxes and deferred claims for taxes are entered if it is probable 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 that 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 subsidiaries, 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 reduced, if it is no longer probable that sufficient taxable income will be available in order to realise the claim completely or in part. A deferred tax asset is entered for the amount of unused tax losses and unused tax credits, which have been carried forward, if it is probable that a future taxable profit will be available, which can be used against the tax losses and the unused tax credits not yet used.

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 debt has to be paid or when the asset value is realised. 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 realise 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 office and if the Group intends to settle its current tax claims and tax liabilities on a net basis.

2.13. Revenue recognition

Turnover 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.

2.13.1. Selling goods

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

- The Group has transferred the major risks and opportunities arising 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
- The amount of sales revenues can be reliably determined
- It is probable that the economic benefits from the business transaction will accrue for the Group and the expenditure incurred or still to be incurred in connection with the sale can be reliably determined.

2.13.2. Providing software services

Revenues from software service contracts are entered according to the degree to which they have been completed, if the results of any software service business can be reliably estimated. In more detail, revenue recognition takes place as follows:

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

Revenues from services (customising) and revenues from adjustments outside the contractually agreed service (change requests):
The revenue recognition in principle takes place at the time when the agreed service is handed over to or accepted by the customer. The services are valued according to IAS 18.20 in order to guarantee revenue recognition that meets the requirements of IFRS. In the case of software service business, for which it was impossible to reliably assess the results – particularly those where the degree of completion is hard to determine – we have only entered this item in terms of expectations about the recovery of costs that were incurred. In the case of those projects where the results can be reliably assessed (IAS 11.23), the turnover has been 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 Group.

The degree of completion is determined according to the degree of completion of the software 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 by the next measurement date. The amount of contract revenues is determined from the agreed job total 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 job total prior to the next measurement date.

2.13.3. 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 temporis rate.

2.14. Estimate uncertainties and assessment decisions

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 entered on the balance sheet. The assumptions and estimates largely relate to an assessment of the intrinsic value of intangible assets (including goodwill), the standard definition of the economic serviceable life of property, plant and equipment and intangible assets, the valuation of inventories and accounts receivable related to the intrinsic value of capitalised deferred taxes and the balance sheet entries 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 development of business, the circumstances, which 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 are adjusted accordingly. At the time when the consolidated annual statements were prepared, the assumptions and estimates, on which they were based, were not subject to any major risks; so that it is assumed that no major adjustments of the carrying amounts of the assets and liabilities indicated on the balance sheet will be necessary in the following financial year from a current point of view.

2.14.1. Main sources of estimate uncertainties

The following indicates the most important assumptions made about the future and the other major sources of estimate uncertainties on the balance sheet date. A major risk may arise as a result of these and mean that a major adjustment to the assets and liabilities recorded here becomes necessary within the next financial year.

Intrinsic value of intangible assets developed in-house

The Management Board 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 were not deemed to be necessary. These intangible assets were taken into account on the consolidated balance sheet on 31 December 2016 with a value of EUR 909 K (previous year: EUR 1,036 K).

The progress made in projects continued to be very satisfactory and customer responses confirmed the previous estimates that the Management Board had made regarding expected revenues from projects. However, the Management Board is continuing to check its assumptions regarding future market shares and expected profit margins for the product. These checks created a situation where the carrying amounts of this assets were recognised at their 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 financial years.

Intrinsic value of goodwill

As a result of the acquisition of the operating business of Solquest GmbH by SQ IT-Services GmbH in 2009, the Group entered an intangible asset worth 6,403 K euros as goodwill for the very first time. This asset was entered on the consolidated balance sheet on 31 December 2016 with a value of EUR 5,533 K after amortisation amounting to EUR 870 K took place in 2014. The value of this figure was checked on 31 December 2016. 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. The calculation of the value in use requires the estimate of future cash flows from the cash-generating unit and a suitable discount rate for the cash value calculation. Although the expected and achievable cash inflows exceeded the carrying amount of the goodwill, management decided to apply a flat-rate haircut to the future forecasts due to the analysis of past expectations and the actual amount of inflows achieved. No revaluation was necessary with regard to this planned haircut.

Goodwill of EUR 244 K was entered on the balance sheet as a result of the corporate merger with AWEK as part of the final purchase price allocation on 10 December 2012 and as an accrual in the goodwill item on the consolidated balance sheet. The goodwill has been fully attributed to the "IT Services" unit generating cash and cash equivalents. This value of this figure was checked on 31 December 2016. 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. The calculation of the value in use requires an estimate of future cash flows from the unit generating the cash and cash equivalents and an estimate of a suitable discount rate for calculating the cash value.

As a result of the acquisition of part of the operating business of DBS Data Business Systems Inc. by GK Software USA Inc., the Group entered an intangible asset worth EUR 9,838 K as goodwill in 2015 (31 December 2016: EUR 10.135 K). The intrinsic value of this figure was checked on 31 December 2016. 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.

The calculation of the value in use requires the estimate of future cash flows from the cash-generating unit and a suitable discount rate for the cash value calculation.

Intrinsic value of customer bases

As a result of the acquisition of the operating business of Solquest GmbH by SQ IT-Services GmbH, the Group entered an intangible asset worth EUR 777 K under "Customer base" for the very first time in 2009. The customer base is amortised as expenditure in a linear fashion over the expected period of use of nine years using a cash value factor and was entered on the consolidated balance sheet at a value of EUR 19 K on the balance sheet reporting date (previous year: EUR 48 K). There was no information indicating the need to make a valuation adjustment beyond this.

The Group entered an intangible asset of EUR 458 K as the customer base due to the business shares in AWEK GmbH acquired by GK Software. The customer base is amortised as expenditure in a linear fashion over the expected period of use of ten years and was entered with a value of EUR 271 K on the balance sheet reporting date (previous year: EUR 317 K).

As a result of the acquisition of part of the operating business of DBS Data Business Systems Inc. by GK Software USA Inc., the Group entered an intangible asset worth EUR 5,433 K as a customer base in 2015 (31 December 2016: EUR 5.515 K). The customer base is amortised as expenditure in a linear fashion over the expected period of use of ten years and was entered on the consolidated balance sheet at a value of EUR 4.578 K on the balance sheet reporting date (previous year: EUR 5.026 K). There was no information indicating the need to make a valuation adjustment beyond this.

The intrinsic value of customer relationships is the result of a comparison drawn from the past of the underlying turnover from existing customer relationships with the turnover actually achieved and the revenues generated from them on the basis of the business planning underlying the procurement costs that have been entered as part of allocating the purchase price and the expectations for the further development of these key figures.

Intrinsic value of accounts receivable from ongoing work

The intrinsic value of the accounts receivable from ongoing work amounting to EUR 3.480 K (EUR 6,495 K in the previous year) and entered on the balance sheet in line with IAS 11 in conjunction with IAS 18.20 is checked through ongoing project monitoring. The course of the projects concerned largely matches the planning work and even the opportunity arising from recognition difficulties did not create a situation where an adjustment of the intrinsic value of accounts receivable from ongoing work needed to be made, as the recognition difficulties would not lead to any expected expenditure, which exceeded the revenues or even made it impossible to recognise the amounts.

Intrinsic value of orders in hand

The useful life of the volume of orders is determined by the time extent of the contractual relations underlying the volume of orders.

Furthermore, the purchase of the business shares in AWEK GmbH by GK Software enabled the Group to enter intangible assets worth EUR 394 K as the value of orders in hand. The orders in hand are amortised as expenditure in a linear fashion over the expected period of use of five years. The figure entered on the balance sheet date amounted to EUR 72 K (previous year: EUR 151 K).

As a result of the acquisition of part of the operating business of DBS Data Business Systems Inc. by GK Software USA Inc., the Group entered an intangible asset worth EUR 1,211 K as the value of orders in hand (31 December 2016: EUR 1.191 K). The orders in hand are amortised as expenditure in a linear fashion over the expected period of use of two years. The figure entered on the balance sheet date amounted to EUR 0 K (previous year: EUR 606 K).

The intrinsic value of the volumes of orders is the result of a comparison drawn from the past of the underlying turnover from the volumes of orders with the turnover actually achieved and the revenues generated from this on the basis of the business planning underlying the procurement costs that have been entered as part of the allocation of the purchase price and the expectations for the further development of these key figures.

Intrinsic value of deferred tax assets

The intrinsic value of capitalised deferred taxes from any losses carried forward relies on the assessment that the Group companies concerned will in future once again generate profits which allow for the utilisation of the tax losses carried forward. This is done by planning the economic development of the individual companies in the Group.

Valuation and assessment of provisions

The valuation and assessment of provisions in conjunction with pending legal disputes or other outstanding claims subject to settlement, mediation, arbitration or government regulation are linked to estimates by the Group to a considerable extent. In this way, the assessment of the probability that pending legal proceedings will be successful or lead to a liability or the quantification of the possible amount of payment obligations is based on the assessment of the respective individual circumstances. In addition, the determination of provisions for taxes and legal risks is linked to substantial estimates. These estimates can change on the basis of new information. When collecting new information, the Group primarily uses the services of internal experts and external advisers such as actuaries or legal consultants.

Assessments of fair value and assessment procedures

In order to determine the fair value of assets and debts, the Group use observable market data, as far as possible. If these input parameters are not available in stage 1, the Group sets appropriate assessment procedures and input parameters. Details of the assessment techniques used and input parameters when determining the fair values of the different assets and debts can be found in section 8.1.

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 valuation of inventories.

3. Notes on the Consolidated Balance Sheet

3.1. Property, plant and equipment

Property, plant and equipment in 2015

T.22

EUR	Real estate and buildings	Operating and business equipment	Initial payments made and facilities under construction	Total
Purchasing or production costs				
Figures on 1 January 2015	4,761,168.05	5,356,054.27	12,500.00	**10,129,722.32**
Accruals	0.00	1,310,950.66	471,413.05	**1,782,363.71**
Disposals	0.00	107,515.49	0.00	**107,515.49**
Figures on 31 December 2015	**4,761,168.05**	**6,559,489.44**	**483,913.05**	**11,804,570.54**
Accumulated depreciation				
Figures on 1 January 2015	1,114,865.66	4,045,029.28	0.00	**5,159,894.94**
Accruals	148,686.82	849,504.58	0.00	**998,191.40**
Disposals	0.00	106,269.67	0.00	**106,269.67**
Figures on 31 December 2015	**1,263,552.48**	**4,788,264.19**	**0.00**	**6,051,816.67**
Carrying amounts on 31 December 2015	**3,497,615.57**	**1,771,225.25**	**483,913.05**	**5,752,753.87**

Property, plant and equipment in 2016

T.23

EUR	Real estate and buildings	Operating and business equipment	Initial payments made and facilities under construction	Total
Purchasing or production costs				
Figures on 1 January 2016	4,761,168.05	6,559,489.44	483,913.05	**11,804,570.54**
Accruals	11,195.85	1,844,410.76	2,714,137.07	**4,569,743.68**
Accruals through corporate mergers	0.00	80,738.34	0.00	**80,738.34**
Disposals	0.00	223,721.13	0.00	**223,721.13**
Figures on 31 December 2016	**4,772,363.90**	**8,260,917.41**	**3,198,050.12**	**16,231,331.43**
Accumulated depreciation				
Figures on 1 January	1,263,552.48	4,788,264.19	0.00	**6,051,816.67**
Accruals	146,449.94	1,297,689.23	0.00	**1,444,139.17**
Accruals through corporate mergers	0.00	33,492.13	0.00	**33,492.13**
Disposals	0.00	200,028.20	0.00	**200,028.20**
Figures on 31 December 2016	**1,410,002.42**	**5,919,417.35**	**0.00**	**7,329,419.77**
Carrying amounts on 31 December 2016	**3,362,361.48**	**2,341,500.06**	**3,198,050.12**	**8,901,911.66**

Procurement obligations for office and business equipment amounted to approx. EUR 390 K (previous year: approx. EUR 417 K).

3.2. Intangible assets

Intangible assets in 2015

T.24

EUR	Capitalised development costs	Industrial property rights and similar rights and values	Goodwill	Customer base	Orders in hand	Total
Purchasing or production costs						
Figures on 1 January 2015	7,081,817.45	2,333,192.64	6,646,963.24	1,235,038.00	393,530.00	**17,690,541.33**
Accruals	524,894.01	2,162,993.05	9,923,827.00	5,433,348.82	1,211,333.02	**19,256,395.90**
Changes caused by exchange rates	0.00	0.00	(85,904.54)	0.00	0.00	**(85,904.54)**
Figures on 31 December 2015	**7,606,711.46**	**4,496,185.69**	**16,484,885.70**	**6,668,386.82**	**1,604,863.02**	**36,861,032.69**
Accumulated depreciation						
Figures on 1 January 2015	5,841,295.95	1,558,228.12	870,000.00	783,296.58	163,970.83	**9,216,791.48**
Accruals	729,689.20	546,352.05	0.00	494,264.96	684,372.52	**2,454,678.73**
Figures on 31 December 2015	6,570,985.15	2,104,580.17	870,000.00	1,277,561.54	848,343.35	**11,671,470.21**
Carrying amounts on 31 December 2015	**1,035,726.31**	**2,391,605.52**	**15,614,885.70**	**5,390,825.28**	**756,519.67**	**25,189,562.48**

Intangible assets in 2016

T.25

EUR	Capitalised development costs	Industrial property rights and similar rights and values	Goodwill	Customer base	Orders in hand	Total
Purchasing or production costs						
Figures on 1 January 2016	7,606,711.46	4,496,185.69	16,484,885.70	6,668,386.82	1,604,863.02	**36,861,032.69**
Accruals	381,689.00	257,282.30	0.00	0.00	0.00	**638,971.30**
Changes caused by exchange rates	0.00	23,644.68	296,789.62	82,297.98	(20,351.56)	**382,380.72**
Disposals	0.00	236.00	0.00	0.00	0.00	**236.00**
Figures on 31 December 2016	**7,988,400.46**	**4,776,876.67**	**16,781,675.32**	**6,750,684.80**	**1,584,511.46**	**37,882,148.71**
Accumulated depreciation						
Figures on 1 January 2016	6,570,985.15	2,104,580.17	870,000.00	1,277,561.54	848,343.34	**11,671,470.20**
Accruals	508,269.94	605,518.57	0.00	605,237.68	664,020.95	**2,383,047.14**
Disposals	0.00	236.00	0.00	0.00	0.00	**236.00**
Figures on 31 December 2016	**7,079,255.09**	**2,709,862.74**	**870,000.00**	**1,882,799.22**	**1,512,364.29**	**14,054,281.34**
Carrying amounts on 31 December 2016	**909,145.37**	**2,067,013.93**	**15,911,675.32**	**4,867,885.58**	**72,147.17**	**23,827,867.37**

The capitalised development costs are amortised according to schedule in a linear fashion over an estimated serviceable life of five years. The amortisation starts in the year of capitalisation with the proportionate amount.

Any technologies acquired in conjunction with the acquisition of the AWEK Group are entered under industrial property rights and similar rights and values. They are amortised in a linear fashion over an estimated period of use of six years. The amortisation process started in the year of capitalisation with the proportionate amount.

Research costs of EUR 38 K were immediately entered during the 2016 financial year (EUR 210 K during the 2015 financial year) as expenses.

The goodwill was allocated to the following units generating cash and cash equivalents for the purpose of checking the impairment:

- StoreWeaver Enterprise Edition (GK/Retail segment)
- IT Services (IT Services segment)
- TransAction+ Products and Services (GK/Retail segment)

The goodwill was allocated as follows:

Goodwill at GK Software

T.26

EUR K	31.12.2016	31.12.2015
StoreWeaver Enterprise Edition	5,533	5,533
IT Services	244	244
TransAction+ Products and Services	10.135	9,838

The StoreWeaver Enterprise Edition unit

The unit generating the cash and cash equivalents, which form the basis for this capitalised goodwill, was assessed with the value in use, however by no more than the purchasing costs, determined as part of the purchase price, which cannot be attributed to assets that can be capitalised. This unit was described in the consolidated accounts for 2010 as the "LUNAR project and project business for this partial solution".

In order to determine the value in use of a unit that generates cash and cash equivalents, assessments were made of the future net cash and cash equivalent accruals. The estimates take place within the planning horizon as part of the normal conventions for Group planning. However, these were used with specific parameters for the unit generating the cash and cash equivalents and these parameters are based on the analysis of the actual development of the unit generating the cash and cash equivalents in the past. The planning conventions generally include planning the balance sheet and the profit and loss statement and, derived from these, planning for the expected flows of cash and cash equivalents.

The detailed planning covers the period until 2021. As use is possible and probable beyond this period — historical experience supports the principle of assuming a normal period of use for solutions provided by the unit generating the cash and cash equivalents of 10 - 15 years — the following period was also taken into account. An even shrinkage rate of 1 percent has been assumed.

The flows of payments determined in this way were discounted with an interest rate of 8.18 percent (6.90 percent in the 2015 financial year) and this specifies the weighted costs of the capital before income taxes. Capital market data from a group of comparable companies was used in order to determine the weighted capital costs.

The ability of the unit generating the cash and cash equivalents to continue to deliver its projects in line with contractual arrangements is crucially important for assessing the value in use. If it does not manage to do so, compensation claims from customers and damage to a company's reputation could significantly impair the economic prospects of the unit concerned and the whole Group too. A serious impairment of the unit's ability to deliver could arise if it is not possible to retain the employees involved in the projects within the Group, as these employees are essential to the success of the project. Any significant loss of employees jeopardises the successful completion of a project. The value in use is also affected by the fact that the software solutions of the unit generating the cash and cash equivalents are sold through partners. If they are unable to deliver these sales commitments, this will have a negative impact on the value in use.

In order to check the value in use in terms of the net assets of the unit generating the cash and cash equivalents, to which the value in use is assigned, we have varied the discount rate. An increase in the interest rate of 1.1 percent or one eighth would create a situation where, other things being equal, a valuation adjustment in the goodwill would have to take place. A reassessment of business expectations only takes place if these expectations are missed by almost one half - this only involves expectations and not contractually commitments - in addition to a haircut of 25 percent generally used for the estimate.

These assessments and the expectation that a fundamental impairment of the ability to deliver the goods or services, whether this is because of a lack of resources or fundamentally poorer work than in the past, is not expected and therefore permit the continuation of the goodwill figure entered in the past.

The IT Services unit
The acquired debts exceeded the identified assets by EUR 244 K in association with the acquisition of the AWEK Group, so that goodwill amounting to this sum was entered on the balance sheet as a result of this transaction on 31 December 2012. According to IAS 36.90, checks on the intrinsic value of the unit generating the cash and cash equivalents took place for the first time on 31 December 2013.

The unit generating the cash and cash equivalents, which form the basis for this capitalised goodwill, was assessed with the value in use, however by no more than the purchasing costs, determined as part of the purchase price, which cannot be attributed to assets that can be capitalised.

In order to determine the value in use of a unit that generates cash and cash equivalents, assessments were made of the future net cash and cash equivalent accruals. The estimates take place within the planning horizon as part of the normal conventions for Group planning. Because of the business model for this unit generating the cash and cash equivalents, which differs from the rest of the Group, specific parameters were used for this unit, which are based on the experience and the analysis of the actual development of the using generating the cash and cash equivalents in the past. The planning conventions generally include planning the balance sheet and the profit and loss statement and, derived from these, planning for the expected flows of cash and cash equivalents.

The detailed planning covers the period until 2021. As use is possible and probable beyond this period – the unit has been offering its services and products for more than twenty years now – the following period was also taken into account. An even shrinkage rate of 1 percent has been assumed.

The flows of payments determined in this way were discounted with an interest rate of 8.18 percent (6.90 percent in the 2015 financial year) and this specifies the weighted costs of the capital before income taxes. Capital market data from a group of comparable companies was used in order to determine the weighted capital costs.

In the case of this unit generating the cash and cash equivalents, it is crucially important for assessing the value in use that the company can deliver its projects in line with contracts. If this does not happen, the Group can expect the same consequences as for the “StoreWeaver” unit. The reasons for the impairment of the ability to deliver are identical. However, the opportunities for successfully using other sales forms than direct sales are insignificant for the Group.

The checks on the stability of estimates about the value in use in relation to the carrying amount of the net assets of the unit generating the cash and cash equivalents revealed that this does not respond to an increase in the capitalisation interest rate within an expected interval. Only when the capitalisation interest rate was increased by a ratio of two-and-a-half would the carrying amount of the net assets of IT Services exceed the value in use. Sales targets would have to permanently be missed by almost 20 percent in terms of business developments. We assume that there are no realistic indications to suggest that the main assumptions with regard to the possibility of delivering projects in line with contractual conditions and being able to retain the employees required for this purpose within the Group will diverge significantly from the actual situation. We believe here too that no realistic change in one of the main assumptions quoted above would create a situation where the carrying amount of the unit exceeded the achievable sum.

The TransAction+ Products and Services unit
The acquired debts exceeded the identified assets by EUR 9.838 K in association with the acquisition of part of the operational business of DBS Data Business Systems Inc. by GK Software USA (31 December 2016: EUR 10.135 K because of the currency conversion) so that goodwill amounting to this sum was entered on the balance sheet as a result of this transaction on 31 December 2015. According to IAS 36.90, checks on the intrinsic value of the unit generating the cash and cash equivalents took place on 31 December 2016.

The unit generating the cash and cash equivalents, which form the basis for this capitalised goodwill, was assessed with the value in use, however by no more than the purchasing costs, determined as part of the purchase price, which cannot be attributed to assets that can be capitalised.

In order to determine the value in use of a unit that generates cash and cash equivalents, assessments were made of the future net cash and cash equivalent accruals. The estimates take place within the planning horizon as part of the normal conventions for Group planning. Because of the business model for this unit generating the cash and cash equivalents, which differs from the rest of the Group, specific parameters were used for this unit, which are based on the experience and the analysis of the actual development of the using generating the cash and cash equivalents in the past. The planning conventions generally include planning the balance sheet and the profit and loss statement and, derived from these, planning for the expected flows of cash and cash equivalents.

The detailed planning covers the period until 2021. As use is possible and probable beyond this period – the unit has been offering its services and products for more than twenty years now – the following period was also taken into account. An even shrinkage rate of 1 percent has been assumed.

The flows of payments determined in this way were discounted with an interest rate of 8.18 percent (6.90 percent in the 2015 financial year) and this specifies the weighted costs of the capital before income taxes. Capital market data from a group of comparable companies was used in order to determine the weighted capital costs.

In the case of this unit generating the cash and cash equivalents, it is crucially important for assessing the value in use that the company can deliver its projects in line with contracts. If this does not happen, the Group can expect the same consequences as for the TransAction+ Products and Services" unit. The reasons for the impairment of the ability to deliver are identical. However, the opportunities for successfully using other sales forms than direct sales are insignificant for the Group.

We conducted changes to the main parameters to check the stability of estimates about the value in use in relation to the carrying amount of the net assets of the unit generating the cash and cash equivalents. There is no need for a value adjustment either if the capitalisation interest rate is increased by four percentage points. At the level of business development, all the new business would have to cease to exist in order to arrive at the need to conduct a new assessment. In the light of this, we assume that there are no realistic indications to suggest that the main assumptions with regard to being able to deliver projects in line with contractual conditions and retain the employees required for this purpose within the Group will diverge significantly from the actual situation. We also believe here that no realistic change in one of the main assumptions quoted above would create a situation where the carrying amount of the unit exceeded the achievable sum.

3.3. Inventories

T.27 Inventories

EUR	31.12.2016	31.12.2015
Goods	955,799.48	482,464.63
Auxiliary materials and supplies	224,437.31	1,172,383.58
Advance payments on inventories	44,202.34	56,941.54
Total	**1,224,439.13**	**1,711,789.75**

During the financial year, inventories worth EUR 2,507 K (previous year: EUR 4,036 K) were entered as material expenditure.

3.4. Trade accounts receivable

The trade accounts receivable have a term of less than one year. Because of the short term involved, it is assumed that the fair value will equal the carrying amount. The number of value adjustments completed during the financial year amounted to EUR 313 K in total (previous year: EUR 22 K). The value adjustments were entered under “Other operating expenditure”. Revenue from the reversal of value adjustments in previous years was entered under “Other operating revenues” and amounted to EUR 12 K (previous year: EUR 207 K). Value adjustments amounting to a total of EUR 437 K were formed on the reporting date (previous year: EUR 136 K).

There were foreign currency trade receivables on the balance sheet reporting date amounting to EUR 4 K in Czech crowns (previous year: EUR 0 K), in American dollars amounting to EUR 1.439 K (previous year: EUR 772 K) and in South African rand amounting to EUR 875 K (previous year: EUR 53 K).

3.5. Trade accounts receivable from ongoing work

Customer orders, for which turnover revenues were realised according to IAS 11 in conjunction with IAS 18.20, must be shown as assets. This item amounted to EUR 3,480,270.93 (previous year: EUR 6,495 K) on the balance sheet reporting date.

3.6. Accounts receivable with associated firms

There were accounts receivable with associated firms on the balance sheet reporting date amounting to EUR 0 K (previous year: EUR 9 K) with AWEK Hong Kong Ltd and amounting to EUR 3 K (previous year: EUR 3 K) with GK Software Holding GmbH, the parent company’s main shareholder.

3.7. Other accounts receivable, assets and income tax assets

Other accounts receivable, assets and income tax assets

T.28

EUR	31.12.2016	31.12.2015
Loans paid to third parties	2,727,761.33	2,812,676.32
Income tax claims	281,750.19	218,534.41
Accounts receivable from members of the Management Board	42,683.40	35,257.50
Others	2,436,111.08	2,026,250.33
of which from legal claims	321,234.90	156,808.12
of which from asset deferrals	1,472,273.99	1,097,831.03
Total	**5,488,306.00**	**5,092,718.56**

Value adjustments amounting to EUR 53 K (previous year: EUR 53 K) were made on loans paid to third parties.

The receivables from income tax claims largely contained receivables from corporation tax, plus the solidarity surcharge and business tax advance payments.

The accounts receivable with members of the Management Board largely concerned payments in advance for travel expenses, which are granted free of interest.

Other accounts receivable existed on the balance sheet reporting date in Czech crowns amounting to EUR 120 K (previous year: EUR 106 K), in Swiss francs amounting to EUR 4 K (previous year: EUR 19 K), in Russian roubles amounting to EUR 8 K (previous year: EUR 6 K), in US dollars amounting to EUR 113 K (previous year: EUR 106 K), in South African rand amounting to EUR 4.K (previous year: EUR 0 K) and Ukrainian hryvnia amounting to EUR 10 K (previous year: EUR 0 K).

3.8. Cash and cash equivalents (liquid funds)

Cash and cash equivalents are assessed at their nominal value. The item contains cash holdings and current bank deposits with terms of less than three months. Banks credits amounting to EUR 11 K (previous year: EUR 11 K) were pledged as part of rent collateral to the bank providing the guarantee. The Management Board is not expecting this security to be used. A further USD 1,100 K (EUR 1,044 K) was put aside as security for retention bonuses for employees.

3.9. Equity

We refer you to the statement of changes to the Group's equity for more information on changes to the equity at GK Software on the 2016 balance sheet reporting date.

The Company's nominal capital amounted to EUR 1,890,000.00 on 31 December 2016 and was divided into 1,890,000 individual share certificates.

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

Authorised capital. On 28 August 2014, the annual shareholders' meeting passed a resolution authorising the Management Board to increase the ordinary shares of the Company by issuing new, no-par value bearer shares (individual share certificates) in exchange for cash contributions and/or assets in kind by up to a total of EUR 945,000 on one or more occasions until 27 August 2019, provided that the Supervisory Board approves (authorised capital in 2014).

In principle, the subscription right must be granted to shareholders. However, the Management Board is entitled to exclude the subscription right to one or several increases in capital as part of authorised capital in order to balance out fractional amounts or in the case of increases in capital in return for assets in kind, particularly when acquiring companies, if the increase in capital takes place in exchange for cash deposits and the issue price does not fall far below the stock exchange price for shares that have already been issued and the ratio of new shares issued and excluded from the subscription right does not exceed 10 percent of the nominal capital according to Section 186 Paragraph 3 Sentence 4 of the German Companies Act and if the new shares have been offered for sale to persons, who have a working relationship with the Company, or have been transferred to them.

Contingency capital. According to Section 4a (1) and (2) of the articles of association, the Management Board was entitled to grant purchase options on up to 37,000 individual share certificates to members of the Management Board, managers of companies in which GK Software already has a direct or indirect shareholding ("associated firms"), and managers at the Company and its associated firms on one or more occasions until 14 May 2013, provided that the Supervisory Board approved these measures.

According to Section 4a (4) of the articles of association, authorisation was provided to increase the nominal capital by a further EUR 50,000, divided into 50,000 individual share certificates. The increase in equity capital is only carried out if holders of share options, which were issued in the period up to 27 June 2017 on the basis of the resolution passed at the annual shareholders' meeting on 28 June 2012, exercise their subscription rights to Company shares and the Company issues new shares to service them. Members of the Management Board, managers of companies in which GK Software has an indirect or direct majority holding ("associated firms") and managers of the Company and its associated firms are entitled to participate in the share option scheme.

According to Section 4a (4) of the articles of association, authorisation was given to increase the nominal capital by a further EUR 75,000, divided into 75,000 individual share certificates. The increase in equity capital is only performed if holders of share options, which are issued in the period up to 28 June 2020 on the basis of the resolution passed at the annual shareholders' meeting on 29 June 2015, exercise their subscription rights to Company shares and the Company issues new shares to service them. Members of the Management Board, managers of companies in which GK Software has an indirect or direct majority holding ("associated firms") and managers of the Company and its associated firms are entitled to participate in the share option scheme.

We would refer to Section 2.7 of the Notes on the Consolidated Accounts with regard to the issue of share options and the amount of contingency capital.

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

Extra charges arising from the issue of shares are shown in the capital reserves.

Currency exchange differences arising from the conversion of foreign business operations and the actuarial profits/losses from defined benefit schemes are entered under “Other income”.

3.10. Statutory provisions for pensions

GK Software and the subsidiaries AWEK GmbH and AWEK microdata GmbH have issued pensions benefit plans in the form of defined benefit plans.

The pension benefit plans have been organised so that they form a life-long, fixed retirement pension, which is to be paid when a member of staff retires upon reaching the age of 65. A contingent right to a widow’s pension amounting to 60 percent of the old-age pension exists if the member of staff suffers invalidity or dies.

The plans in Germany mean that the Group is normally exposed to the following actuarial risks: investment risks, risks associated with changes in interest rates, longevity risks, salary risks and risks from inflation and pension increases.

Investment risks. The cash value of the defined benefit obligation in the plan is determined by using a discount rate. This is determined on the basis of the profits of high-grade corporate loans with a fixed interest rate. As soon as the yields from the plan asset fall below this interest rate, this creates a shortfall in cover for the plan. The plan currently has a relatively balanced investment portfolio of equity instruments, debt instruments and property. Because of the long-term nature of the plan liabilities, the administration board of the pension fund believes that it is advisable to invest an appropriate part of the plan asset in equity instruments and property in order to increase the chances of increasing profits.

Risks associated with changes in interest rates. A reduction in the loan interest rate will lead to an increase in the plan liability, but this is partially offset by an increased yield from the plan asset investment in debt instruments with fixed interest rates.

Longevity risks. The cash value of the defined benefit obligation from the plan is determined on the basis of the best possible estimate of the probability of death for the employees benefiting from the scheme, both during their working relationship and also after this ends. Any increase in life expectancy on the part of the employees benefitting from the scheme leads to an increase in the plan liability.

Salary risks. The cash value of the defined benefit obligation from the plan is determined on the basis of the future salaries of the employees benefiting from the scheme. As a result, any increases in salaries for the employees benefitting from the scheme create an increase in the plan’s liability.

The cash value of the defined benefit obligation and the associated current service costs are determined using the current single premium method.

The calculations are based on the following assumptions:

T.29 Assumptions for calculating cash values

	FY 2016	FY 2015
Pensionable age (m/f)	60-65/60-65	60-65/60-65
Discount factor(s) on 1 January	2.20% p.a.	2.00% p.a.
Discount factor(s) on 31 December	1.40% p.a.	2.20% p.a.
Salary development/ expectation of future benefits	0.00% p.a.	0.00% p.a.
Rate of pension increase	1.50% p.a.	1.50% p.a.
Probability of fluctuation	none	none

The calculations are based on the “2005G Guideline Tables” published by Klaus Heubeck.

The assets of the associated plan assets in question here are 100 percent insurance policies (reinsurance policies). In this respect, it is not possible to provide any other information on investment categories.

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:

Reconciliation account to determine the cash value

T.30

EUR	FY 2016	FY 2015
Figures on 1 January:	3,232,027	3,277,278
+ Interest expenditure	69,782	64,352
+ Working period costs	79,054	81,113
− Benefits paid out	(112,289)	(111,227)
+ Actuarial losses	429,579	(79,489)
Figures on 31 December	**3,698,153**	**3,232,027**

The development of the plan assets is shown as follows:

Development of the plan assets

T.31

EUR	FY 2016	FY 2015
Figures on 1 January	1,772,097	1,612,827
+ Expected yields from plan assets	40,039	33,416
+ Contributions	189,548	189,548
− Benefits paid out	(93,852)	(73,679)
− Actuarial losses (-)/ profits	23,347	9,985
Figures on 31 December	**1,931,179**	1,772,097

This therefore gave rise to a plan deficit of EUR 1,766,974 (previous year: EUR 1,459,930), which was entered as a pensions provision.

The following amounts were entered in the overall results with regard to the defined benefit plans:

Statutory provisions for pensions

T.32

EUR	2016	2015
Current service costs	79,054	81,113
Net interest expenditure	29,743	30,936
Components of the defined benefit costs entered in the profit and loss statement	108,797	112,049
Reassessment of net debt from the defined benefit plan		
Losses from plan assets (with the exception of the amounts contained in the net interest)	(16,221)	9,985
Actuarial gains and losses from the change in financial assumptions	429,579	(79,489)
Components in the defined benefit costs entered under "Other income"	413,358	(69,504)
Total	**522,155**	**42,545**

In terms of the ongoing annual expenditure amounting to EUR 109 K (previous year: EUR 112 K), interest revenues amounting to EUR 40 K (previous year: EUR 33 K) and interest expenditure amounting to EUR 70 K (previous year: EUR 64 K) were entered under "Interest results" and the remaining expenditure amounting to EUR 79 K (previous year: EUR 81 K) was entered as "Expenditure for old-age pensions".

The reassessment of net debt from a defined benefit plan was entered under "Other income".

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

Development of the cash values of defined benefit obligations and plan assets

T.33

EUR	Cash value of the defined benefit obligation	Fair value of the plan assets	Shortfall (−) surplus (+)
FY 2016	**3,698,153**	**1,931,179**	**(1,766,974)**
FY 2015	3,232,027	1,772,097	(1,459,930)
FY 2014	3,277,278	1,612,827	(1,664,451)
FY 2013	2,444,471	1,532,422	(912,049)
FY 2012	3,188,199	1,479,873	(1,708,326)
FY 2011	476,574	283,560	(193,014)
FY 2010	437,024	101,054	(335,970)

The adjustments based on experience can be represented as follows during the last five years:

Development of the plan debts and plan assets

T.34

EUR	Liabilities in the plan	Assets in the plan
FY 2016	**272,809**	**(11,878)**
FY 2015	(65,298)	(5,408)
FY 2014[1]	361,552	(22,113)
FY 2013	(3,129)	(19,581)
FY 2012	6,386	18,962
FY 2011	3,503	14,929
FY 2010	(42,275)	(2,061)
FY 2009	2,666	3,330

1 – Change to previous year's figures

We assume that contributions amounting to EUR 189,548 (previous year: EUR 189,548) will be paid into the plan during 2017. During the financial year, the actual revenues from the planned assets amounted to EUR 63,386, following a figure of EUR 43,401 in the previous year.

The crucial actuarial assumptions, which are used to determine the defined benefit obligation, are the actuarial interest rate and the pension trend. The sensitivity analyses shown below were carried out on the basis of the possible changes to each assumption on the balance sheet date determined by prudent judgment, although the remaining assumptions remained unchanged in each case.

- If the actuarial interest rate increases (falls) by 1 percent, the defined benefit obligation will be reduced by EUR 503 K (increased by EUR 630 K) (2015: reduced by EUR 425 K (increased by EUR 529 K)).
- If the pension trend increases (falls) by 1 percent, the defined benefit obligation will be increased by EUR 440 K (reduced by EUR 376 K) (2015: increased by EUR 370 K (reduced by EUR 317 K)).

The aforementioned sensitivity analysis should not represent the actual change in the defined benefit obligation, as it is improbable that any deviations from the assumptions made will occur in isolation, as some of the assumptions are connected to each other.

The cash value of the defined benefit obligation in the aforementioned sensitivity analysis was also determined using the current single premium method on the balance sheet reporting date, i.e. the same method as that used to calculate the defined benefit obligation entered on the consolidated balance sheet.

The amount of reinsurance is planned in line with the pension provision. No additional contributions were made.

The promised benefits from the defined benefit pension plans have the following effects on the flows of payments (expected pension payments) for the balance sheet years following the reporting date:

Benefits from the plan in the following years

T.35

EUR	Value
Fiscal year 1	112,691.00
Fiscal year 2	113,192.00
Fiscal year 3	114,206.00
Fiscal year 4	116,064.00
Fiscal year 5	118,191.00
Fiscal year 6-10	861,551.00

On the reporting date, the weighted average duration of the defined benefit payment obligation was 20.02 years, or 33.92 years at GK Software, 5.95 years at AWEK GmbH and 9.51 years at AWEK microdata GmbH.

3.11. Non-current and current bank liabilities

Two investment loans were taken out with the Commerzbank AG Plauen during the 2007 financial year (original amounts: EUR 750 K and EUR 450 K). The Company also took over a loan (EUR 225 K) from Gläß & Kronmüller OHG, Schöneck during the course of the merger in 2007. Security for the loans is provided through registered land charges on the business real estate, recorded in the land register for Schöneck, Plauen Local Court, page 1895. The loan, which was taken over during the course of the merger, was rescheduled during the 2009 financial year. The two other loans were valued at a total of EUR 274 K on the reporting date. In order to provide additional security, there is a blanket assignment of the receivables from goods deliveries and services owed by third-party debtors, with the exception of the accounts receivable associated with the “LUNAR” project. Other loans were taken out during the 2009 financial year as a result of the new building extension, the aforementioned rescheduling and the acquisition of Solquest (DZ Bank EUR 748 K and KfW EUR 180 K). These loans were valued at EUR 330 K in total on 31 December 2016. In order to provide security for the loans from the DZ bank, land charges amounting to EUR 1,085 K were entered in the land registry for Schöneck, Plauen Local Court, pages 999, 1378 and 1895. In order to increase liquidity even further, a loan (amounting to EUR 3,000 K) was taken out with Sparkasse Vogtland during 2015. This loan was valued at EUR 2,464 K on the reporting date. The repayment for the following year amounts to EUR 429 K. In order to finance the corporate acquisition in the USA, a loan (amounting to EUR 10,000 K) was taken out with IKB Bank during 2015. This loan was valued at EUR 8,500 K on the reporting date. The repayment for the following year amounts to EUR 2,000 K.

This included securing liabilities amounting to EUR 604 K through a mortgage on 31 December 2016. These loans, which were valued at EUR 604 K (previous year: EUR 813 K) on the reporting date, are due for repayment in the following year with a total sum of EUR 172 K (previous year: EUR 209 K). This share of repayment is entered under “Current bank liabilities.”

In addition to this, the current bank liabilities include utilised credit card limits amounting to EUR 94 K (previous year: EUR 0 K) and a current account credit line that was used amounting to EUR 3,086 K (previous year: EUR 1.017 K).

3.12. Deferred public sector grants

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 programme and investment grants that are not subject to tax.

The amortisation 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.

3.13. Deferred taxes

Please refer to Section 4.9.

3.14. Provisions

Provisions

T.36

EUR	Personnel department	Production department	Other departments	Total
Situation on 1 January 2016	1,689,073.27	747,321.78	184,204.79	**2,620,599.84**
Amounts used	1,676,836.23	255,653.78	144,914.79	**2,077,404.80**
Liquidation	12,237.04	81,000.00	3,050.00	**96,287.04**
Additional funds	203,310.00	659,759.70	145,480.13	**1,008,549.83**
Figures on 31 December 2016	**203,310.00**	**1,070,427.70**	**181,720.13**	**1,455,457.83**

The total current provisions in the personnel department primarily concern bonuses, while they are exclusively warranties in the production department.

The calculations for warranty provisions are based on warranty costs in the past and estimates regarding future costs. An amount totalling EUR 149 K was used from provisions additionally formed in previous years for projects.

3.15. Liabilities from trade payables

Trade payables are still due for settlement within one year.

There were foreign currency trade receivables on the balance sheet reporting date amounting to EUR 32 K in Czech crowns (previous year: EUR 40 K), in Ukrainian hryvnia amounting to EUR 1 K (previous year: EUR 0 K), in American dollars amounting to EUR 149 K (previous year: EUR 52 K) and in South African rand amounting to EUR 3 K (previous year: EUR 0 K).

3.16. Initial payments received

As in the previous year, 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.

3.17. Income tax liabilities

This item contains liabilities arising from corporate tax, the solidarity surcharge and business tax in Germany amounting to EUR 181 K (previous year: EUR 627 K), amounting to EUR 0 K in the Czech Republic (previous year: EUR 68 K), amounting to EUR 25 K in Switzerland (previous year: EUR 4 K), amounting to EUR 1 K in Russia (previous year: EUR 2 K), amounting to EUR 178 K in the USA (previous year: EUR 39 K) and amounting to EUR 7 K in Ukraine (previous year: EUR 0 K).

3.18. Other current liabilities

Other current liabilities

T.37

EUR	31.12.2016	31.12.2015
Tax liabilities	1,853,248.77	1,465,588.74
Liabilities from wages and salaries	7,199,921.71	4,086,745.59
Other liabilities towards members of staff	17,844.06	8,973.75
Liabilities from the acquisition of companies	2,371,691.48	2,302,237.78
Others	3,594,510.37	2,435,935.84
of which from deferrals	1,743,959.03	1,661,234.40
Total	**15,037,216.39**	10,299,481.70

The tax liabilities cover outstanding income tax payments and value-added tax. There were other foreign currency liabilities amounting to EUR 514 K (previous year EUR 443 K) in Czech crowns, amounting to EUR 138 K (previous year: EUR 206 K) in Swiss francs, amounting to EUR 1 K (previous year: EUR 0 K) in Ukrainian hryvnia, amounting to EUR 5,172 K (previous year: EUR 4.193 K) in US dollars and amounting to EUR 249 K (previous year: EUR 45 K) in South African rand.

3.19. Secured liabilities

Two investment loans were taken out with Commerzbank AG Plauen in the 2007 financial year. The loans are secured by the registered land charges on the business real estate (carrying amount EUR 3,557 K), recorded in the land register for Schöneck, Plauen Local Court, Page 1895. Two other loans were taken out (DZ Bank, KfW) during the 2009 financial year as a result of the extension of the new building, the aforementioned 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. In order to increase liquidity even further, a loan (amounting to EUR 3,000 K) was taken out with Sparkasse Vogtland during 2015. This loan was valued at EUR 2,464 K on the reporting date. In order to finance the corporate acquisition in the USA, a loan (amounting to EUR 10,000 K) was taken out with IKB Bank during 2015. This loan was valued at EUR 8,500 K on the reporting date. The two loans were granted without any special securities. The Sparkasse is, however, entitled to demand some security at any time, but this situation has not arisen so far.

4. Notes on the Consolidated Profit and Loss Statement

4.1. Turnover revenues

The turnover revenues are exclusively the result of the sale of hardware and software and the provision of services for international and national customers.

Turnover amounting to EUR 6.885 K (EUR 2,958 K in the previous year), which was determined according to IAS 18.20, was entered during the financial year.

Overall, all the customer orders covered in this report had an assets-side balance and were entered with a figure under “Trade accounts receivable from ongoing work” (cf. 3.5). Advance payments made by customers amounting to EUR 7,466 K were entered on the balance sheet. The expenses incurred after the reporting date amounted to EUR 2,517 K (previous year: EUR 4,007 K).

As regards the make-up of the significant categories of revenues, we would refer to Section 7 entitled “Segment Reporting”. Overall, warranty provisions amounting to EUR 149 K were used and EUR 81 K were amortised and EUR 538 K were newly added for these amounts during the financial year and therefore the figure entered for expected warranties amounted to a total figure of EUR 948 K (previous year: EUR 640 K) on the balance sheet reporting date.

4.2. Own work capitalised

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

4.3. Other revenues

T.38 Other revenues

EUR	FY 2016	FY 2015
Reversals of other uncertain liabilities and provisions	158,378.49	76,739.51
Vehicle benefits in kind	964,704.52	821,019.85
Earnings from reversals of deferred public grants	28,500.42	28,949.63
Employee contributions towards catering	72,351.01	58,328.89
Earnings from investment grants	12,305.84	21,557.80
Reductions in value adjustments	25,672.13	34,479.13
Others	506,756.21	684,761.36
Total	**1,768,668.62**	**1,725,836.17**

4.4. Materials expenditure

T.39 Materials expenditure

EUR	FY 2016	FY 2015
Cost of auxiliary materials and supplies	2,506,664.99	4,035,965.54
Expenditure on purchased services	5,174,028.59	4,230,161.05
Total	**7,680,693.58**	**8,266,126.59**

4.5. Personnel expenditure

T.40 Personnel expenditure

EUR	FY 2016	FY 2015
Wages and salaries	40,810,015.74	33,988,096.14
Social security contributions	6,859,243.71	5,679,756.74
of which expenditure on retirement benefits	300,690.23	231,310.56
Total	**47,669,259.45**	**39,667,852.88**

On average, 819 people were employed during the 2016 financial year (697 in the previous year). 877 people were employed on the reporting date of 31 December 2016.

With 485 staff members (previous year: 400), a large proportion of the Group's employees are employed at GK Software AG. The number of employees increased to 183 (previous year: 174) at the Czech subsidiary Eurosoftware s.r.o. in Plzen. There were 103 employees at AWEK in Barsbüttel (previous year: 109) at the end of the year. AWEK microdata GmbH employed 23 people (previous year: 16) on 31 December 2016. Two people were employed at OOO GK Software RUS, as in the previous year. 41 people were employed at GK Software USA Inc. on the reporting date (previous year: 28). GK Software Africa Ltd had 15 employees on the reporting date (previous year: 6). The number of people employed at TOV Eurosoftware-UA increased from 14 at the time of the acquisition in January 2016 to 20. 5 people were employed at the Swiss subsidiary StoreWeaver GmbH at the end of the year (previous year: 4).

4.6. Depreciation and amortisation

As in the previous year, this item exclusively covers scheduled depreciation on property, plant and equipment and the amortisation of intangible assets.

4.7. Other expenditure

As in the previous year, this item largely covers legal and advisory costs, expenditure on warranties, advertising and travel expenses, office and operating costs as well as administrative and sales expenditure.

4.8. Financial results

T.41 Financial results

EUR	FY 2016	FY 2015
Interest income	146,412.73	215,971.32
Interest expenditure	(637,160.67)	(323,439.90)
Account balance	**(490,747.94)**	**(107,468.58)**

4.9. Income taxes

T.42 Income taxes

EUR	FY 2016	FY 2015
Current tax liabilities	329,969.20	527,253.38
Deferred tax expenditure	295,865.97	(410,057.21)
Account balance	**625,835.17**	**117,196.17**

Deferred taxes were determined according to the individual corporate tax rates in Germany, which were 29.5 percent, 29.2 percent and 32.6 percent based on corporation tax, the solidarity surcharge and the business tax. The deferred taxes in the individual companies were based on a tax rate of 25.8 percent in Switzerland, 19 percent in the Czech Republic, 39 percent in the USA, 20 percent in Russia, 28 percent in South Africa and 18 percent in Ukraine. An average Group tax rate of 25.5 percent was used to determine the deferred taxes on changes arising from the elimination of Group interim profits.

The deferred taxes are included in the following items:

Deferred taxes

T.43

EUR	31.12.2016 Assets	31.12.2016 Liabilities	31.12.2015 Assets	31.12.2015 Liabilities
Loss carried forward	2,177,522.99	0.00	2,559,222.29	0.00
Intangible assets	401,075.29	1,589,534.11	241,652.83	1,010,433.16
Other fixed assets	95,147.82	1,822.70	0.00	0.00
Provisions for guarantees	152,079.52	0.00	4,285.69	0.00
Provisions for pensions	579,062.62	0.00	452,494.45	0.00
Changes in exchange rates	81,605.79	31,626.54	71,145.72	60,237.58
Accounts receivable from ongoing work	284,875.96	1,395,245.98	948.77	763,417.64
Trade accounts receivable	461,530.00	0.00	56,096.39	0.00
Interest and currency swap	21,423.38	25,517.28	105,581.75	53,611.73
Payables/ other provisions in previous year	379,316.00	119,017.45	32,145.68	0.00
Total according to the balance sheet	**4,633,639.37**	**3,162,764.06**	**3,523,573.57**	**1,887,700.11**

Deferred tax claims/liabilities developed as follows:

Deferred tax claims/liabilities

T.44

31.12.2016

EUR	Initial balance	Changes related to the income statement	Changes not related to the income statement	Final balance
Interest and currency swap	51,970.02	(26,727.17)	(29,336.75)	**(4,093.90)**
Provisions for pensions	452,494.45	5,434.75	121,133.42	**579,062.62**
Changes in exchange rates	10,908.14	0.00	39,071.12	**49,979.26**
Other fixed assets	0.00	93,325.12	0.00	**93,325.12**
Provisions for guarantees	4,285.69	147,793.83	0.00	**152,079.52**
Intangible assets – in-house developed software	(302,535.66)	37,701.61	0.00	**(264,834.05)**
Intangible assets – in-house developed software (development expenses at AWEK)	(127,864.43)	43,839.23	0.00	**(84,025.20)**
Acquired intangible assets as part of the corporate acquisition (acquired technologies)	104,414.72	(249,233.47)	0.00	**(144,818.75)**
Acquired intangible assets as part of the corporate acquisition (customer relations)	(93,379.63)	139,736.08	0.00	**46,356.45**
Intangible assets acquired as part of the purchase of the company (orders on hand)	(44,463.97)	83,505.96	0.00	**39,041.99**
Intangible assets acquired through the Solquest purchase (customer relations)	137,238.11	(27,120.32)	0.00	**110,117.79**
Goodwill	(442,189.47)	(448,107.58)	0.00	**(890,297.05)**
Accounts receivable from ongoing work	(762,468.87)	(347,901.15)	0.00	**(1,110,370.02)**
General value adjustments (general value adjustments in previous year)	56,096.39	405,433.61	0.00	**461,530.00**
Payables (other provisions in previous year)	32,145.68	228,152.87	0.00	**260,298.55**
Loss carried forward (other assets in previous year)	2,559,222.29	(381,699.30)	0.00	**2,177,522.99**
Total	**1,635,873.46**	**(295,865.93)**	**130,867.79**	**1,470,875.32**

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

T.45 Transfer of tax expenditure

EUR K	2016	2015
Pre-tax earnings	3,452	(1,383)
Anticipated average tax expenditure of 25.5% (prev. year: 28.2%)	880	(390)
Tax expenditure according to domestic legislation	330	527
Tax impact on non-deductible company spending	51	199
Tax impact on tax-free income	(12)	(22)
Deferred taxes	296	(410)
Other tax effects	(39)	(178)
Actual tax expenditure	**626**	**117**
Effective tax ratio	18.1%	(8.5)%

Income taxes amounting to EUR 121 K (previous year: EUR 26 K) are included under "Other income taxes" in conjunction with expenditure and revenues from the reappraisal of the defined benefit obligation.

4.10. Earnings per share

The earnings per share are determined as a quotient of the total results and the weighted average of the number of shares in circulation during the financial year. The average number of shares in circulation during the 2016 financial year was 1,890,000 (previous year: 1,890,000). The consolidated surplus for 2016 amounted to EUR 2,826 K (previous year: EUR (1,500 K)). As a result, earnings per share amounted to EUR 1.50 for 2016 (previous year: (0.79)).

The calculation for the diluted earnings per share took into account the number of shares where

			31.12.2015	
Initial balance	Changes related to the income statement	Changes not related to the income statement	Final balance	
0.00	9,323.09	42,646.93	**51,970.02**	Interest and currency swap
485,208.19	(58,469.04)	25,755.30	**452,494.45**	Provisions for pensions
0.00	0.00	10,908.14	**10,908.14**	Changes in exchange rates
0.00	0.00	0.00	**0.00**	Other fixed assets
2,983.84	1,301.85	0.00	**4,285.69**	Provisions for guarantees
(362,356.30)	59,820.64	0.00	**(302,535.66)**	Intangible assets – in-house developed software
(171,703.67)	43,839.24	0.00	**(127,864.43)**	Intangible assets – in-house developed software (development expenses at AWEK)
104,414.72	0.00	0.00	**104,414.72**	Acquired intangible assets as part of the corporate acquisition (acquired technologies)
(106,880.30)	13,500.67	0.00	**(93,379.63)**	Acquired intangible assets as part of the corporate acquisition (customer relations)
(67,662.56)	23,198.59	0.00	**(44,463.97)**	Intangible assets acquired as part of the purchase of the company (orders on hand)
121,491.00	15,747.11	0.00	**137,238.11**	Intangible assets acquired through the Solquest purchase (customer relations)
(5,889.95)	(436,299.52)	0.00	**(442,189.47)**	Goodwill
(610,898.26)	(151,570.61)	0.00	**(762,468.87)**	Accounts receivable from ongoing work
0.00	56,096.39	0.00	**56,096.39**	General value adjustments (general value adjustments in previous year)
630.94	31,514.74	0.00	**32,145.68**	Payables (other provisions in previous year)
1,757,168.23	802,054.06	0.00	**2,559,222.29**	Loss carried forward (other assets in previous year)
1,146,505.88	**410,057.21**	**79,310.37**	**1,635,873.46**	**Total**

the share price on average lay above the exercise thresholds during the year.

The Company's share price for 2,000 options (previous year: 75,375 options) was below the exercise thresholds taken as an annual average. These were not taken into account when calculating the diluted, weighted average price for the ordinary shares on 31 December 2016.

The Company's share price for 127,575 options (previous year: 29,675 options) was above the exercise thresholds taken as an annual average. These were taken into account when calculating the diluted, weighted average prices for the ordinary shares on 31 December 2016. The diluted earnings per share amounted to EUR 1.44 (previous year: EUR (0.79)).

4.11. Currency conversions

Currency differences are present in the following items in the profit and loss statement:

Currency conversions

T.46

EUR	2016	2015
Other expenses	97,317.83	248,636.73
Other income	(571,074.49)	(31,703.08)
Balance	**(473,756.66)**	**216,933.65**

5. Notes on the Cash Flow Statement

We have entered any interest and taxes that have been paid in the cash flow from operating business. Any interest received has been entered under the cash flow from investment activities. Any dividends paid are taken into account in the cash flow from financing activities.

6. Corporate Mergers

TOV Eurosoftware-UA, Lviv/Ukraine was acquired on 26 January 2016 and was included in the GK Software AG consolidated accounts by way of full consolidation for the first time on the date that it was set up. As a result, the Company took over 14 employees in Ukraine. The purchase price was EUR 46 K. Because the acquisition of this company only represents a negligible transaction, no presentation of the breakdown of the purchase price has been made according to IFRS 3.

7. Segment Reporting

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

The key components needing to be checked 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 earnings before 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 as well as services related to maintaining these products. The Group also sells hardware for store IT solutions to a limited degree, but this is manufactured by third parties. The subdivision of turnover according to fields of work is part of the reporting process.

The IT Services segment offers services for operating IT systems at store-based retailers. The software services include user support and monitoring and maintaining hardware and software.

A subdivision of turnover in terms of products and fields of work provides the following general overview:

Turnover by segments

T.47

EUR K	GK/Retail FY 2016	GK/Retail FY 2015	SQRS FY 2016	SQRS FY 2015	IT-Services FY 2016	IT-Services FY 2015	Elimintations FY 2016	Elimintations FY 2015	Group FY 2016	Group FY 2015
Turnover with third parties	64,866	49,559	877	1,062	11,590	11,981	—	—	77,333	62,602
Licences	11,484	9,793	—	—	909	697	—	—	12,393	10,490
Maintenance	12,799	12,290	821	974	7,425	7,491	—	—	21,045	20,755
Services	39,833	26,076	52	88	1,162	3,518	—	—	41,047	29,682
GK Academy	397	177	—	—	—	—	—	—	397	177
Other business	376	1,250	4	—	2,133	321	—	—	2,513	1,571
Revenue reductions	(23)	—	—	—	(39)	(46)	—	—	(62)	(73)
Turnover with other segments	**199**	**375**	**—**	**—**	**1,035**	**—**	**(1,234)**	**(375)**	**—**	**—**
EBIT segment	**3,222**	**(1,955)**	**434**	**464**	**286**	**1,644**	**—**	**(1,429)**	**3,942**	**(1,276)**
Assets	**69,404**	**65,257**	**2,355**	**2,213**	**8,700**	**9,724**	**(8,843)**	**(9,432)**	**71,616**	**67,761**
Liabilities	**40,327**	**38,482**	**74**	**191**	**6,194**	**7,345**	**(6,633)**	**(7,222)**	**39,962**	**38,794**
Cash and cash equivalents	**5,059**	**6,017**	**547**	**669**	**411**	**691**	**—**	**—**	**6,017**	**7,377**

Depreciation and amortisation for the GK/Retail segment amounted to EUR 3,485 K (previous year: EUR 3,046 K), for SQRS EUR 0 K (previous year: EUR 0 K) and for IT Services EUR 376 K (previous year: EUR 407 K).

The Company is standing by its decision to no longer sell the SQRS software solutions in future, in order to streamline the Group's product portfolio.

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

The Company generated turnover of EUR 27,794 K with customers that have their administration headquarters located outside Germany (previous year: EUR 14,652 K). The share of turnover generated by the SQRS business unit amounted to EUR 0 K here (previous year: EUR 0 K) and the figure for the IT Services unit was EUR 252 K (previous year: EUR 480 K). 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 firms receiving the services. This turnover amounted to EUR 1,019 K (previous year: EUR 424 K), but is valued as domestic turnover because of the contractual basis and has been fully assigned to the GK/Retail business segment.

Turnover with customers, which each have a share of sales that is greater than 10 percent, amounted to approximately EUR 10,822 K (previous year: EUR 7,173 K) or 14.0 percent in 2016 (previous year: 11.5 percent) of total turnover.

8. Other Information

The Group views all the financial assets, which can be apportioned to the Group, as capital. It intends to maintain these assets and control them in such a way that they are adequate to enable it to meet its financial liabilities in good time. The Group is not subject to any capital requirements apart from those dictated by German legal stipulations. In line with conserving capital, the Group is pursuing an extremely conservative investment strategy in order to prevent any loss of capital.

8.1. Financial instruments

The financial instruments include original and derivative financial instruments.

The original financial instruments largely comprise accounts receivable on the assets side, the other financial assets and means of payment. On the liabilities side, the original financial instruments largely comprise the liabilities assessed at ongoing amortised costs. The portfolio of original financial instruments is shown on the balance sheet. If any default risks are recognisable within the financial assets, these risks are entered by means of value adjustments.

Two investment loans were taken out with the Commerzbank AG Plauen during the 2007 financial year (original amounts: EUR 750 K and EUR 450 K). The interest payments for the two investment loans from the Commerzbank are secured by interest rate ceiling mechanisms in the form of caps. This security mechanism has a term until 30 June 2017 and is secured using a cap rate of 1.0 percent p. a. An interest rate hedging transaction with a top rate agreement was concluded for the loan from the Commerzbank AG worth 180 K euros from ERP funds. This security mechanism had a term that runs until 30 September 2016 with a capping rate of 4 percent p.a. The derivative financial instrument (interest cap) was mainly not assessed according to its fair value for reasons of materiality. The cap premiums are reported under “Other assets” with figures of EUR 2 K (previous year: EUR 7 K) and have been reversed on a pro rata temporis basis and entered as interest expenditure. For this reason, this figure was not classified under the “Financial assets assessed at their fair value in terms of affecting the net income” category. The negative market value of these interest capping mechanisms on a nominal volume of EUR 274 K (derived from the mid-market price through bank assessments) amounted to a total figure of EUR 0 K on the balance sheet date (previous year: EUR 6.4 K).

An interest exchange rate swap was taken out to secure the cash flow arising from the acquisition of the Retail & Programming division of DBS Inc. in the USA for repaying the investment loan at IKB. The interest and currency swap started on 31 December 2015 and ends on 31 March 2021. Quarterly repayments amounting to USD 529 K and approx. USD 100 K in interest must be paid to IKB from the first half of 2016 onwards. Bank assessments were used to determine the fair value on the balance sheet reporting date. The market value of this interest and currency swap covering a nominal volume of USD 10,595 K (EUR 10,000 K) amounted to a total negative figure of EUR 28 K (previous year EUR 184 K) on the balance sheet reporting date - derived from the mid-market price. This amount was entered on the balance sheet under “Other liabilities” (“Other assets” in the previous year). No valuation unit was formed.

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

Conversion of the balance sheet items to assessment categories in line with IAS 39

T.48

IFRS 7.8	Categories	Balance sheet items	Amount EUR K	Previous year Amount EUR K
a)	Financial assets assessed at fair values and affecting net income	Interest and currency swap	(28)	184
b)	Financial investments to be retained until the final due date	N/A	—	—
c)	Loans and accounts receivable	Trade accounts receivable, accounts receivable from ongoing work, partial sums for other accounts receivable according to individual statement in Section 3.7. (with the exception of the income tax claims and the other statutory claims entered under "Other accounts receivable" as well as asset deferrals)	24,925	22,536
d)	Financial assets available for sale	N/A	—	—
e)	Financial liabilities assessed at amortised costs	Non-current and current bank liabilities, accounts payable, partial sums for current provisions according to the individual statement in no. 3.14 (human resources department, other departments), partial sums for other liabilities according to no. 3.18 in the Notes on the Consolidated Accounts (liabilities from wages and salaries, other liabilities towards employees, other liabilities without liability deferrals)	30,794	25,966

The Group's financial assets were subject to an impairment amounting to EUR 509 K on 31 December 2016 (previous year: EUR 189 K). EUR 509 K (previous year: EUR 189 K) of this amount was due to individual value adjustments on accounts receivable.

The Group only has (with the exception of the interest rate caps – for an explanation, see above) the financial tools of loans and accounts receivable and financial liabilities, which are valued at amortised costs. The following "Other income" and "Other expenses" are used for the IAS 39 assessment categories: impairments, appreciation (write-ups, reversal of impairment losses), realised disposal gains and subsequent entries from depreciated financial instruments.

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

Loans and accounts receivable

T.49

EUR K	Notes No.	31.12.2016	31.12.2015
Write-ups for amortised accounts receivable	4.3.	12	35
Expenditure from the allocation to valuation adjustments	3.4.	(313)	(22)
Reversal of general individual value corrections		—	172
Account balance		**(301)**	**185**
Financial liabilities, assessed at amortised costs		N/A	N/A

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

The maturity structure of trade accounts receivable on 31 December is shown as follows:

T.50 The maturity structure of trade accounts receivable

EUR	31.12.2016	31.12.2015
Not overdue	16,491,781.19	10,276,332.93
1 to 30 days overdue	933,815.61	2,002,701.38
31 to 90 days overdue	485,280.41	24,166.71
More than 90 days overdue	120,858.80	301,681.00
Total	**18,031,736.01**	**12,604,882.02**

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

Any trade accounts receivable overdue by more than 30 days do not provide any reason for further value adjustments, apart from the value adjustments already carried out. The generally high degree of payment behaviour in the retail sector has almost completely enabled the Company to avoid any default situations during its corporate history. The accounts receivable shown above contain amounts, which are overdue on the reporting date, but for which the Group has not conducted any write-downs. This is based on the fact that the credit-worthiness has not been subject to any major changes and the Company believes that it will be possible for it to collect the outstanding amounts.

The value adjustments on trade accounts receivable developed as follows during 2016:

T.51 Changes in value adjustments according to IFRS 7.16

EUR K	2016	2015
Situation at the start of the year	136	321
Value adjustments on accounts receivable	313	22
Reversal of value	(12)	(35)
Reversal of general individual value corrections	—	(172)
Situation at the end of the year	**437**	**136**

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

The parent company had taken out the following loans on 31 December 2016:

Loans

T.52

EUR	Nominal amount	31.12.2016	31.12.2015
Investment loan from Commerzbank Plauen	750,000.00	37,500.00	112,500.00
Investment loan from Commerzbank Plauen	450,000.00	236,250.00	258,750.00
ERP loan from Commerzbank Plauen	180,000.00	49,500.00	67,500.00
Loan from DZ Bank, Frankfurt	748,000.00	280,500.00	374,000.00
Loan from IKB	10,000,000.00	8,500,000.00	10,000,000.00
Loan from Sparkasse Vogtland	3,000,000.00	2,464,285.00	2,892,857.00
Loan from Skoda Bank	21,503.08	18,724.12	0.00
Total	**15,149,503.08**	**11,586,759.12**	**13,705,607.00**

The investment loans with the Commerzbank Plauen will be repaid on schedule with constant instalments by 30 June 2017 (annual repayment of EUR 37.5 K) and 30 March 2027 (annual repayment of EUR 22.5 K). The Commerzbank loan from ERP funds has a term that runs until 30 September 2019 and is being repaid with an annual amount of EUR 18 K.

No repayments had to be made on the loan from the DZ Bank, which has a term until 1 October 2019, until 1 January 2012 and it then had to be repaid on schedule with annual instalments of EUR 93.5 K.

The debt existing on the balance sheet reporting date has been divided into current and non-current debts in the consolidated accounts.

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 2017 and is secured with a capping rate of 1.0 percent. An interest rate hedging transaction with a top rate agreement was concluded for the loan from the Commerzbank AG worth 180 K euros from ERP funds. This security mechanism had a term that ran until 30 September 2016 with a cap rate of 4 percent.

In order to increase liquidity even further, a loan (amounting to EUR 3,000 K) was taken out with Sparkasse Vogtland during 2015. This loan was valued at EUR 2,464 K on the reporting date. In order to finance the corporate acquisition in the USA, a loan (amounting to EUR 10,000 K) was taken out with IKB Bank during 2015. This loan was valued at EUR 8,500 K on the reporting date.

Market risks: The Group is exposed to risks associated with exchange and interest rates as a result of its business activities. The exchange rate risks result from the business sites maintained in different currency areas and increasingly from customer relations that go beyond the eurozone. The interest rates are the result of selected types of funding to enhance the Group's financial latitude. The Group typically accepts additional conditions (so-called “covenants”) in addition to the general loan conditions when funding projects with loans that are provided by banks and they relate to general financial figures or other conditions. Failure to meet these additional conditions normally entitles the bank concerned to make the loans in question due for payment in full immediately, regardless of whether the main loan contract obligations are being met and probably can continue to be met or not. The Group handles this risk by monitoring the covenants and communicating with the banks concerned in an appropriate manner.

In order to have some protection against these market risks, the Group uses derivative financial instruments like interest rate caps to provide certain security against increases in the interest rate that is charged. As the Group's exposure to currency risks has increased considerably in absolute terms, larger items of business will be safeguarded by exchange rate hedging mechanisms like cross currency swaps to safeguard payments made in the non-functional currency in proportion to the functional currency.

Exchange rate risks: Exchange rate risks occur from the Group's exposure to Czech crowns, Swiss francs, Russian roubles, US dollars, Ukrainian hryvnia and South African rand. The outstanding monetary assets and debts held in foreign currencies have been included under the relevant items. The following table provides a summary of the Group's exposure to the individual currencies on the balance sheet reporting date:

Monetary assets and debts held in foreign currencies

T.53

EUR K	Assets 31.12.2016	Assets 31.12.2015	Liabilities 31.12.2016	Liabilities 31.12.2015
Czech crowns	417	988	546	482
Swiss francs	72	133	138	206
Russian roubles	115	98	0	0
US dollars [1]	4,498	3,021	5,321	4,245
South African rand	1,165	750	252	45
Ukrainian hryvnia	16	—	2	—

1 – Previous year's figure changed

The following table shows the results of the sensitivity analysis that was performed. We have determined the effect on the annual results and equity as part of a positive and negative change in the exchange rates of 10 percent against the euro.

Effect of a change in the exchange rate on the annual results and equity

T.54

EUR K	Exchange rate loss of (10)% for the euro 2016	Exchange rate loss of (10)% for the euro 2015	Exchange rate gain of 10% for the euro 2016	Exchange rate gain of 10% for the euro 2015
Czech crowns				
Annual results	(14)	56	12	(46)
Equity	336	265	(275)	(217)
Swiss francs				
Annual results	(7)	(8)	6	7
Equity	1	(3)	(1)	1
Russian roubles				
Annual results	13	11	(10)	(9)
Equity	6	3	(5)	(2)
US dollars				
Annual results [1]	(91)	(136)	75	111
Equity [1]	(68)	(88)	56	72
South African rand				
Annual results	101	79	(83)	(64)
Equity	(34)	31	28	(25)
Ukrainian hryvnia				
Annual results	2	—	(1)	—
Equity	9	—	(7)	—

1 – Previous year's figure changed

The Group's exchange rate risk sensitivity mainly increased due to the change in its exposure to US dollars in mathematical terms. However, the following description does not include the interest and currency swap taken out to safeguard the financial risks. After taking this effect into account, the currency risk did not increase significantly in comparison with the previous year.

According to the Company's managers, the sensitivity analysis does not represent the full exchange rate risk, as the risk at the end of the reporting period only reflected the risk to a certain extent because of fluctuations during the year. This was because of accounting fluctuations, particularly at the end of the first quarter of a financial year for work, which is assessed in Czech crowns, but is only accounted for once a year.

Interest risks: The Group is exposed to interest risks, as the Group's companies include financial resources at fixed and variable interest rates. The risk is controlled by the Group by maintaining an appropriate ratio because it takes out a mixture of fixed and variable interest rates on funds. This takes place by using interest rate caps.

The interest risk on the Group's financial assets and financial liabilities is fully described in the section on managing the liquidity risk.

The interest risks are the result of interest payments agreed within the loan contracts. There is no link with the exchange rate risk here, because all the loans are nominated in euros or the interest rates and exchange rates were agreed at a fixed rate for the term of the loans. During the current year, interest payments of EUR 475 K were made and interest expenditure of EUR 637 K was entered to affect the income statement. The interest rate on the loan with the DZ Bank is fixed for the complete term so that no interest risks arise from this contract. The same applies to the loans with the IKB denominated in euros for EUR 10,000 K; the exchange rate and interest rate were fixed for the complete term. The interest for the investment loans with the Commerzbank worth EUR 750 K and EUR 450 K are fixed quarterly at a rate that is 1.8 percentage points above the three-month EURIBOR rate. The interest risk has been restricted by an interest rate cap of 1.0 percent p.a. If there were an extreme change in the three-month EURI-

BOR rate by one percentage point, this would trigger a change in the interest expenses amounting to EUR 42 K during 2016 (determined using the factual interest expenses during 2016 with a changed interest rate). There are no risks related to interest on deposits because of the current low interest rates for deposits. Despite this, the Company is keeping a close eye on the development of interest on deposits. The investment strategy can be quickly adapted because only short-term investments are being used.

Credit default risks: We understand a credit default risk to be the risk of a loss for the Group if one contractual party does not meet its contractual obligations. In principle, the Group only maintains business relations with those contractual parties where any deviation from the contractual obligations does not appear to be probable.

Trade accounts receivable exist with all the Group's current customers. The maximum credit risk corresponds to the carrying amount of the trade accounts receivable. All the Group's customers are companies with an outstanding position in their respective markets. The probability of any default by failing to meet the obligations agreed with the Group is therefore slight. This situation is monitored closely by observing the customer's payment behaviour, the market environment and drawing on external sources such as reports from the relevant specialist press. If this monitoring process gives rise to an assumption that the general economic situation for individual customers has changed, further measures are adopted in agreement with the management team in order to restrict any possible losses. Write-downs may occur if customers believe that work has not been complete or is inadequate. In these cases, the Group basically carries out individual value adjustments for precautionary reasons to the degree that there is some expectation that settlements on a fair dealing basis – without any recognition of legal grounds – might be made. A flat-rate value adjustment on the complete item is also made to reflect the general default risk for trade accounts receivable. Interest revenues have not been entered from these depreciated financial assets.

The default risk on liquid funds is slight, as the banks holding the accounts are all members of the German deposit protection scheme or they have an outstanding reputation with a corresponding credit rating.

The Group has securities for loans that have been granted and they are designed to reduce the default risk on financial assets. A security pledge has been made at a security deposit account for a loan of EUR 0.7 K that has been granted. The fair value for the deposit account is specified at EUR 1.6 million. Salary pledges have been deposited as securities for further loans amounting to EUR 2 million. The fair value of these pledges was EUR 3.0 million.

Overall, the Management Board believes that the value adjustments currently performed have taken into account all the probable risks for the Group to an appropriate degree.

Liquidity risks and due dates for financial obligations: The Group controls the liquidity risks by having available appropriate reserves, credit lines and similar credit facilities and by monitoring the deviations between forecast and actual cash flows.

The following table shows the contractual remaining terms of the Group's non-derivative financial liabilities. The tables are founded on non-discounted cash flows for financial liabilities based on the earliest date when the Group may be obliged to make payments. The table contains both interest charges and repayments. The contractual due dates are based on the earliest possible time when the Group may be obliged to make payments.
As the interest rate for instruments with variable interest rates has been secured using interest rate caps, we have assumed the highest rate from the interest rate cap as the interest charge when determining the interest payments for these instruments.

Interest on liabilities

T.55

EUR	Weighted average interest rate	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total	Carrying amount
31 December 2015								
Interest-free	—	6,186,879.01	6,203,762.36	4,004,546.59	740,615.04	—	**17,135,803.00**	17,135,803.00
Variable interest rate	1.5585	1,016,956.30	—	115,500.00	177,000.00	146,250.00	**1,455,706.30**	1,455,706.30
Fixed interest rate	2.30/4.10/2.19	—	—	2,022,072.00	9,994,788.00	1,249,997.00	**13,266,857.00**	13,266,857.00
Financial guarantees	—	—	—	14,584.14	37,420.32	—	**52,004.46**	52,004.46
31 December 2016								
Interest-free	—	9,495,362.33	5,447,759.14	2,641,279.44	392,446.33	—	**17,976,847.24**	17,976,847.24
Variable interest rate	1.281	3,086,015.36	—	78,000.00	121,500.00	123,750.00	**3,409,265.36**	3,409,265.36
Fixed interest rate	2.30/4.10/ 2.19/3.92	—	—	2,525,274.68	8,416,809.44	321,425.00	**11,263,509.12**	11,263,509.12
Financial guarantees	—	—	—	14,779.36	37,420.32	—	**52,199.68**	52,199.68

The Group safeguards part of its variable interest obligations by interest rate caps. This business relates precisely to the financial instrument that is being secured in each case. The total disbursements incurred in this respect during the 2016 financial year amounted to EUR 7 K. We expect a figure of EUR 5 K for the 2017 financial year and interest payments of EUR 20 K for the following years.

The Group can resort to credit lines amounting to EUR 5,000 K. EUR 1.914 million of these have not been used. The Group is expecting to be able to service its other obligations by operating cash flows and revenues received when financial assets are due for payment.

In greater detail, this involves the following:

Credit lines

T.56

EUR K	31.12.2016	31.12.2015
Non-collateralised current account lines	**4,000**	**4,000**
of which: taken up	3,086	1,017
of which: not taken up	914	2,983
Collateralised current account lines	**1,000**	**1,000**
of which: taken up	—	—
of which: not taken up	1,000	1,000

8.1.1. Assessments at fair value

We explain below how the Group determines the fair values of various financial assets and debts.

The Group has an asset in the form of the interest and currency swap taken out and worth USD 10,595 K, which needed to be entered on the balance sheet for the first time on 31 December 2015. This asset was valued at USD 9,006 K on the balance sheet reporting date. The item was entered under "Other liabilities" with a fair value of EUR 28 K on the basis of the bank assessment in 2016. Corresponding expenditure was therefore entered in the total income statement.

The interest and currency swap described was repeatedly valued by the liaising bank using observable market prices (mark-to-market, input facts in stage 1). No regrouping into assessment stage 2 took place.

The Group took on a contingent liability of USD 2.5 million (EUR 2.4 million) when acquiring the Retail Division of Data Business Systems Inc. in March 2015. This liability has assessed at its fair value, as the amount depends on the business development of GK Software in North America until 31 August 2018 and is measured according to the amount of Group turnover in the USA (input factor 3) and a particular minimum figure is reached. The estimate of the amount of drawdown arising from this liability is gained as part of Group planning. That led to entering another liability of USD 2.5 million (EUR 2.4 million) on 31 December 2016.

The Group does not have any other financial assets or debts that can be assessed regularly at their fair value apart from these.

In the case of financial assets, which cannot be regularly assessed at their fair value, but where the fair value must be specified, we view the carrying amounts entered on the balance sheet as a good approximation of the fair values.

8.2. Contingent liabilities

Contingent liabilities cover 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. However, this 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.

A guarantee loan amounting to EUR 38 K (previous year: EUR 38 K) exists for contingent liabilities and it was granted by Volksbank Vogtland e.G. The guarantee is part of the normal collateral for rental payments at the Berlin office and is secured by credit balances pledged as collateral which amount to EUR 11 K (previous year: EUR 11 K). The Management Board does not expect it to be necessary to make use of the guarantee.

Agreements on retention bonuses were agreed with employees as part of the acquisition of the retail segment of the US company, DBS Data Business Systems Inc. USD 1,100 K (approx. EUR 1.04 million) has been deposited in an American bank account for this purpose.

8.3. Operating leasing agreements

The operating leasing agreements relate to vehicle leasing arrangements. The payments entered as expenditure for the 2016 financial year amounted to EUR 1,301 K (previous year: EUR 1.151 K).

There were payment obligations arising from operating leasing contracts amounting to EUR 2,932 K (previous year: EUR 1,124 K). EUR 1.342 K is due for repayment within one year (previous year: EUR 630 K) and EUR 1.590 K (previous year: EUR 494 K) within five years. There are no finance leasing agreements.

8.4. Subsidiaries

Subsidiaries of GK Software AG

T.57

Name of the subsidiary	Headquarters	Capital share in %	Voting right share in %	Main business
Eurosoftware s.r.o.	Plzen/Czech Republic	100.0	100.0	Software development, software programming
StoreWeaver GmbH	Dübendorf/Switzerland	100.0	100.0	Software development, software programming
1. Waldstraße GmbH	Schöneck	100.0	100.0	Software development, software programming
OOO GK Software RUS	Moscow, Russian Federation	100.0	100.0	Software development, software programming
AWEK GmbH	Barsbüttel	100.0	100.0	IT Services
AWEK microdata GmbH	Barsbüttel	100.0	100.0	Software development, software programming
GK Software USA Inc.	Raleigh/USA	100.0	100.0	Software development, software programming
GK Software Africa (Pty) Ltd	Bryanston/South Africa	100.0	100.0	Software development, software programming
TOV Eurosoftware-UA	Lviv, Ukraine	100.0	100.0	Software development, software programming

All the companies named here are fully consolidated in these consolidated accounts.

GK Software has also had a 50 percent holding in the nominal capital of Unified Experience UG amounting to EUR 1 K since 25 November 2016, which is not included as a holding in an associated firm in the Group accounts for reasons of materiality.

8.5. Details of associated persons and firms

There was no need for any expenditure on valuation adjustments or irrecoverable debts with related persons or these items did not exist.

Business transactions between GK Software and its consolidated subsidiaries have been eliminated as part of the consolidation process.

8.5.1. Parent company

The direct parent company of GK Software AG is GK Software Holding GmbH, Schöneck. Commercial relationships existed as part of an agency agreement during 2016. Revenue of EUR 1 K from this has been included under “Other income”.

8.5.2. Management Board

The following people are members of the Management Board:

- Mr Rainer Gläss, Schöneck, CEO, engineering graduate
- Mr André Hergert, Hamburg, CFO, business graduate

Their current due benefits amount to EUR 1.311 K in all. This included EUR 680 K in fixed earnings, EUR 509 K in variable earnings and monetary benefits amounting to EUR 122 K. The variable earnings relate to the degree to which targets were met in the financial year and the previous year.

Forfeitable share provisions (share options) are granted as long-term share-based remuneration. If they are exercised, the options are serviced by the issue of new non-par value company shares made out to the holder with a calculated share in the nominal capital of EUR 1 from the authorised capital without any additional payment. In terms of the organisation of the stock awards, the same general conditions apply to the Management Board as to leading members of staff. Reference is made to this in section 2.7 “Share option scheme”. The Management Board members held a total of 34,000 options on 31 December 2016. 3,000 of these were allocated to the share option scheme for 2012, 10,000 options for 2013, 6,000 for 2014, 5,000 for 2015 and 10,000 for 2016; the options had a fair value of EUR 11,929, EUR 6,240, EUR 6,420, EUR 8,302 and EUR 9,202 on the date of issue. The share-based remuneration for the year 2016 therefore totalled EUR 65 K. 13,000 options are held by two former members of the Management Board.

The Company created pension provisions amounting to EUR 666 K for former members of the Management Board and their surviving dependents (previous year: EUR 526 K). The sum required to meet this provision amounted to EUR 1,362 K (previous year: EUR 1,094 K) and the net plan assets had a fair value of EUR 696 K (previous year: EUR 568 K). Other non-current due benefits therefore amounted to EUR 666 K in all on the reporting date, EUR 140 million of which was added to the figure in 2016.

Therefore, the total remuneration for the Management Board amounted to EUR 1.516 K, including options.

The annual shareholders' meeting on 29 June 2015 decided in line with Sections 286 Paragraph 5 and 314 Paragraph 2 Sentence 2 of the German Commercial Code to forego the disclosure of the individual salaries according to Sections 285 No. 9 Letter a) Sentences 5 – 8 and 314 Paragraph 1 No. 6 Letter a) Sentences 5 – 8 of the German Commercial Code for the financial years 2015 to 2019. As a result, no detailed information is made available here.

The Company created pension provisions amounting to EUR 325 K (previous year: EUR 255 K) for former members of the Management Board and their surviving dependents. The settlement value of this provision amounts to EUR 628 K (previous year: EUR 492 K) and the net plan assets had a fair value of EUR 303 K (previous year: 237 K).

Those who are or were members of the Company's Management Board or Supervisory Board during the 2016 financial year directly held the following shareholdings in GK Software on 31 December 2016:

T.58 Shareholdings held by members of the Management Board and Supervisory Board

Name	Number of shares	in %
Rainer Gläss	62,792	3.32
Herbert Zinn	1,000	0.06
André Hergert	500	0.03

Mr Gläss and Mr Kronmüller indirectly held a further 468,350 shares through GK Software Holding GmbH on 31 December 2016.

8.5.3. Supervisory Board

The following people are members of the Supervisory Board:

- Mr Uwe Ludwig, Neumorschen, management consultant, Chairman of the Supervisory Board
- Mr Herbert Zinn, Ebersburg, trade and commerce expert
- Mr Thomas Bleier, Oelsnitz, businessman

The total earnings of the Supervisory Board at GK Software AG amounted to EUR 80 K during the 2016 financial year (previous year: EUR 40 K). They represent short-term due benefits.

No other claims for remuneration exist.

No agreements exist between members of the Supervisory Board and the parent 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.

T.59 Accounts receivable from associated firms and persons

EUR K	31.12.2016	31.12.2015
Loans to associated firms, which are not part of the consolidated group	1,995	1,999
Other claims from members of the management team in key positions (Management Board members)	43	35
Accounts receivable from associated firms, which are not part of the consolidated group	391	294
Total	**2,429**	**2,328**

Two loans were granted to closely associated firms. One loan amounting to EUR 2,000 K (previous year: EUR 2,000 K) was granted for an indefinite period, but can be terminated at the end of any year with a period of notice of three months. The interest payable amounts to 4% p.a. This was valued at EUR 1,995 K on the balance sheet reporting date (previous year: EUR 1,999 K). Salary claims from Mr Rainer Gläss and Mr Stephan Kronmüller to GK Software serve as collateral for the loans.

The second loan was granted for an indefinite period with a current account credit line of up to EUR 20 K and is subject to an interest rate of 6%. The current balance amounts to EUR 0 K (previous year: EUR 0 K).

Other accounts receivable with members of the Management Board amounting to EUR 43 K (previous year: EUR 35 K) comprise various advance payments for purchases, travel expenses and similar items and are therefore not subject to interest. These accounts receivable can be recovered at any time.

In addition, there are tenancy arrangements with another closely related firm. Rental expenditure amounting to EUR 53 K (previous year: EUR 53 K) were incurred during the financial year.

Expenditure for external services with closely related firms amounting to EUR 496 K was also incurred (previous year: EUR 248 K). In addition to this, EUR 143 K (previous year: EUR 67 K) of income was generated from closely related firms in connection with providing vehicles and other services and expenses incurred for additional services amounting to EUR 189 K (previous year: EUR 460 K). In addition, revenues from retirement benefits amounting to EUR 74 K (previous year: EUR 133 K) and expenditure from providing project services amounting to EUR 937 K (previous year: EUR 512 K) were generated. The outstanding accounts receivable with this firm were valued at EUR 381 K (previous year: EUR 289 K) on the balance sheet reporting date.

All the business transactions with closely related firms involved other related companies in line with the categorisation in IAS 24.19.

8.6. Auditor's fee

The Group's auditor charged expenses amounting to EUR 109 K for auditing services, tax advisory services amounting to EUR 109 K and other services amounting to EUR 6 K in 2016.

8.7. Declaration of compliance

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

8.8. Informationaftertheannualaccountsreportingdate

Information about circumstances, which was available on the reporting date for the annual accounts, was taken into account if the Management Board knew about it by 27 April 2017.

The following major events took place after the end of the 2016 financial year and need be mentioned at this point.

The Supervisory Board of GK Software AG therefore approved the following at its meeting on 19 April 2017:

9. The Company is to be transformed into a European Company (Societas Europaea, SE) by way of a change in legal form. All the necessary measures and preparations are to be arranged for this.

10. A company law change for the Company into a limited company according to EU law (Societas Europaea or SE) according to Article 2 Para. 2 in conjunction with Article 37 of the Order (EC) No. 2157/2001 of the Council dated 8 October 2001 covering the Statute for a European Company (SE) in conjunction with the Act to Implement the Order (EC) no. 2157/2001 of the Council dated 8 October 2001 covering the Statute for a European Company (SE) dated 22 December 2001 (SE Implementation Act) and in conjunction with the Act Covering the Participation of Employees in a European Company

dated 22 December 2004 (SE Participation Act) by way of a change of legal form is being suggested to the annual shareholders' meeting on 22 June 2017.

The Company took out a loan amounting to EUR 2.75 million with Sparkasse Vogtland to finance the new construction of another building complex. The loan has been fully secured by a mortgage.

DZ Bank AG has made a firm promise of a general loan of EUR 5 million to GK Software initially until 28 February 2019. The corresponding loan document is currently being drafted at the time of completing this report.

Otherwise no event of particular importance occurred after the end of the financial year, which could have a significant impact on the Group's assets, financial or earnings situation.

The parent company, which draws up the consolidated accounts for the largest group of companies, is GK Software Holding GmbH, which has its headquarters in Schöneck. No publication of the consolidated accounts has taken place yet.

10.1. Day on which the accounts are approved for publication

The Management Board approved these Group accounts to be forwarded to the Supervisory Board on 27 April 2017. The Supervisory Board has the job of checking the consolidated accounts and stating whether it endorses them or not.

Schöneck, 27 April 2017

The Management Board

Guarantee 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 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, 27 April 2017

The Management Board

Rainer Gläss
CEO

André Hergert
CFO

Auditor's Certificate

Auditor's certificate

We have audited the consolidated accounts of GK Software AG, Schöneck – which consist of the consolidated profit and loss statement and other results, 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 2016. The preparation of the consolidated financial statements and the group management report in accordance with the International Financial Reporting Standards (IFRS), as used in the European Union (EU), and the additional requirements of German commercial law in line with Section 315a Para. 1 of the German Commercial Code and the supplementary provisions in the articles of association are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code taking into account the generally accepted German standards for auditing financial statements set by the Institute of Auditors. These standards require that we plan and perform the audit in such a way that any false statements and contraventions materially affecting the presentation of the assets, financial and earnings situation in the consolidated financial statements are detected with reasonable certainty, taking into account the applicable financial reporting framework. A knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible false statements are taken into account when determining the audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on the basis of random samples when conducting the audit. The audit includes an assessment of the annual financial statements of those entities included in the consolidated accounts, determining the entities to be included in the consolidation process, accounting and consolidation principles used, significant estimates made by the Management Board and evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any objections.

In our view, the consolidated accounts at GK Software AG, Schöneck, comply with IFRS, as adopted by the EU, based on the findings of our audit and in line with the commercial rules needing to be applied in line with Section 315a Para. 1 of the German Commercial Code and the supplementary provisions in the articles of association and they provide a true and fair picture of the assets, financial and earnings situation of the Group, taking into account these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a correct picture of the Group's position and suitably presents the opportunities and risks for future developments.

Dresden, 27 April 2017

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Karmann)
Auditor

(Kahlert)
Auditor

Financial Calendar

30 May 2017
Interim statement as of 31 March 2017

22 June 2017
Annual Shareholders' Meeting 2017
in Schöneck/V.

30 August 2017
Interim report as of 30 June 2017

27 - 29 November 2017
Analyst Conference in Frankfurt/M

29 November 2017
Interim statement as of 30 September 2017

26 April 2018
Annual report 2017

30 May 2018
Interim statement as of 31 March 2018

21 June 2018
Annual Shareholders' Meeting 2018
in Schöneck/V.

30 August 2018
Interim report as of 30 June 2018

November 2018
Analyst Conference in Frankfurt/M

26 November 2018
Interim statement as of 30 September 2018

Imprint/Notes

Imprint

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Dipl.-Kfm. André Hergert, CFO

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Notes

Note to the 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 https://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.