GK SOFTWARE

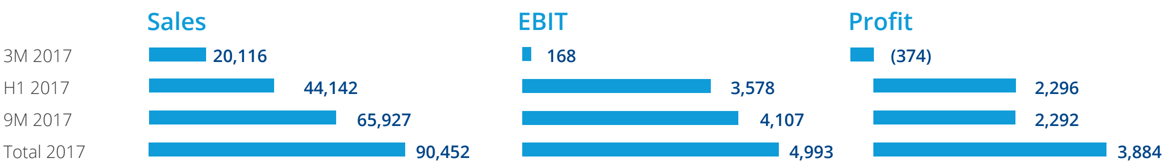
Annual Report 2017

Simply Retail.

Summary of Consolidated Results

		31.12.2017	31.12.2016	31.12.2015	Change (2016/2017)
Sales	EUR K	**90,452**	77,333	62,602	17.0 %
Operating performance	EUR K	**90,452**	77,714	63,127	16.4 %
Total operating revenue	EUR K	**95,649**	79,483	64,853	20.3 %
EBIT	EUR K	**4,993**	3,942	(1,276)	26.6 %
EBIT margin (on sales)	%	**5.5**	5.1	(2.0)	—
EBIT margin (on total operating revenue)	%	**5.2**	5.0	(2.0)	—
EBITDA	EUR K	**8,773**	7,803	2,177	12.4 %
EBT	EUR K	**4,340**	3,452	(1,383)	
Net profit for the year	EUR K	**3,884**	2,826	(1,500)	37.4 %
Earnings per share (weighted)	EUR	**2.05**	1.50	(0.79)	—
Earnings per share (diluted)	EUR	**2.00**	1.44	(0.79)	—
Equity ratio	%	**36.3**	44.2	42.7	—
Net debt	EUR K	**(11,305)**	8,746	7,346	(229.3) %
Employees		**1,011**	877	739	15.3 %

Development by quarter (EUR K)



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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] for 2017. By way of introduction, we would like to report that the mandate provided to us during the annual shareholders' meeting in 2017 to transform GK Software AG into a European limited company (SE) was completed when the change was entered in the Commercial Register on 19 January 2018; as a result, these Group annual accounts are the first under the new operating name, GK Software SE[2].

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 SE is used, this exclusively refers to the individual company.

2 – GK Software AG officially changed its business operating name to GK Software SE on 19 January 2018 when the change was recorded by an entry in the Commercial Register. The current business name is therefore used in the complete financial statement.

In addition to this organisational explanatory note, we have prepared the ground to continue our dynamic growth with our cloud4retail service; this has enabled us to embed our OmniPOS product in a complete cloud service for the very first time; and by taking over the provider of solutions for using artificial intelligence in the retail sector, prudsys AG, we have laid the ground for continuing our process of dynamic growth.

We are also delighted to be able to report to you that we were able to reap the fruits of the developments that we introduced during the last few years and our turnover reached a figure of EUR 90.45 million. As a result, this figure had almost reached the goal set for our medium-term forecast for 2018 - but already in 2017. Turnover was therefore almost EUR 17 million higher than the previous year's figure of EUR 77.33 million.

We were also able to continue the process of stabilisation from the previous two years in terms of the development in earnings. The visible expression of this is found in the earnings before interest, taxes, depreciation and amortisation (EBITDA), which reached a figure of EUR 8.65 million (previous year: EUR 7.80 million), and the earnings before interest and taxes (EBIT), which reached a figure of EUR 4.87 million (following EUR 3.94 million); both figures exceeded the values for the previous year and were therefore fully within the goals set within the medium-term forecast in 2015.

However, observing the reasons for this development in greater detail continues to make us confident that we will actually be able to reach the results target of an EBIT margin of 15 percent in our core business field, which is being sought for 2018 as part of our medium-term forecast. The results in 2017 actually include the initial effects of the transition phase from classic, one-off licence turnover to repeating licence turnover in a subscription model (SaaS). In a first significant project in 2017, we were able to agree ongoing subscriptions lasting for several years in a cloud-related operating scenario instead of the full licence amount needing to be paid immediately; this provides us with a more reliable basis for turnover in the next few years. As a result, we are supplementing the existing basis for reliable turnover arising from maintenance revenues - which, by the way, rose by more than one third to EUR 29.20 million compared to the previous year - and are an expression of our stable and long-standing customer relations, alongside the IT services that we offer our customers.

Due to this, the Group's annual net profits amounted to EUR 3.41 million (2016: EUR 2.83 million); this corresponds to earnings per share of EUR 1.78 (previous year: EUR 1.50).

In a manner similar to 2016, we were once again able to very successfully sell our new main product, the OmniPOS cloud solution, in conjunction with SAP during the reporting period. The clear evidence of this is that we were able to gain 14 new customers from various sectors on four continents, including three that are among the global top 50 retailers. Overall, about 3,400 more stores are being equipped by us as part of these new projects. What is particularly pleasing is that we were able to gain customers in important retail markets like Spain, France and Italy, and we will be able to use them as references for our ongoing sales work in future. Our international position is also reflected in the latest RBR Study, which analyses the global POS market. Among other things, it reveals a market share of 43 percent in the field of newly installed grocery POS systems in Western Europe for GK Software. In line with this independent survey, almost one in ten new installations around the world came from GK Software and SAP at tier 1 retailers.[1]

We presented the new cloud4retail service for the first time at the leading European EuroCIS trade fair at the beginning of 2018; this enables us to embed OmniPOS in a complete cloud service. We are therefore the first provider of an enterprise solution to not only be able to offer customers of different sizes the market-leading solution for the omni-channel environment, but also complete operations for this in a cloud. As a result, we can offer the classic on-premises model from our range of solutions, but also an SaaS model as a standard feature to be leased for several years. The official launch of cloud4retail followed a one-year ramp-up phase at selected customers. The first pure cloud project is currently in the pilot phase and another pilot project is due to start shortly.

We were able to take over a provider in the field of artificial intelligence by taking a majority shareholding in prudsys AG in Chemnitz in November 2017. This company is very well established internationally with personalisation solutions for online providers and has a broad customer base. The core product at prudsys is its Realtime Decisioning Engine (rde), which is able to supply answers to different questions in real time on the basis of various methods of artificial intelligence like machine learning. In addition to many issues in the field of the individually customised personalisation of offers, which will also be incorporated in the OmniPOS range of solutions, the rde will also be used for the issue of dynamic pricing, which has currently become a strong area of focus. This involves calculating the ideal price/sales functions and price elasticity on the basis of artificial intelligence and taking into account all the available contributing factors in real time. Experience, particularly from the online field, shows that it is possible to tap into considerable potential for making profits by using this method of setting prices, for the price is the most effective earnings and turnover lever in the retail sector.

Another important building block in our comprehensive range of services for the retail sector is our mobile consumer solution, which SAP has included in its own portfolio using the "hybris Mobile Customer Assistant by GK" name. The solution is geared towards consumers and their mobile devices and enables the complete range of mobile customer contacts - ranging from infotainment and mobile couponing to self-scanning and even mobile payments. This solution is already in use at major customers and is being prepared for the rollout phase in several ongoing projects. The cloud-based solution ideally supplements our portfolio and enables retailers to quickly make use of their own branded consumer app. The inclusion of this further solution in the SAP portfolio is not the only evidence that our strategic partnership with SAP is justifiably a central element in our internationalisation and growth strategy. This partnership has now proved its worth in 60 joint projects on four continents and is not only characterised by close cooperation in the sale of solutions, but also through intense cooperation in the fields of research and technology. We will continue our close and very successful cooperation with SAP and work on continuing to expand the joint portfolio for the retail sector.

Our research and development work was dominated by the ongoing development of OmniPOS and the first productive use of our cloud services during the 2017 financial year. Important issues here involved the full integration in the new SAP Business

1 – RBR Study: Global POS Software 2017, London 2017

S4HANA system, implementing cash management with a link to the appropriate cash recycling hardware or completing further features for specific countries. The renewed premium qualification of OmniPOS and the first qualification of Mobile Customer Assistant guaranteed that the latest versions of our solutions have been approved for sale by SAP.

We were able to expand our installation base by about another 36,600 units during the reporting period, so that 262,000 systems are now in productive use in 51 countries (checkouts, mobile devices, servers). Several huge mass roll-outs at existing customers and the huge increase in the number of mobile installations (without consumer apps) were important here. The installations at the former DBS company in the USA or those at prudsys AG are not included in the figures, as both products are not comparable. As in previous years, almost all our existing projects continued to generate further revenue. This occurs with great regularity, as our customers are permanently adapting their solutions to new requirements in their business by expanding into new countries, developing new sales concepts or introducing omni-channel requirements.

In our partner business, partners were selected for further regions in 2017 and were intensively trained by the GK Academy. With support from the department that is responsible for our partner business, the first project in Mexico was almost completely supplied by a partner there during the reporting period. Seven other projects in Latin America and on the Arabian Peninsula are being handled by partners, who are being supported by supervisors from our partner management department. These are normally fairly small projects and the partner management department and the GK Academy fulfil the task intended for them to train an international network of partners to support us with high-quality services in completing international projects. As a result, we are in a position to scale up our business to include further regions without having to establish our own implementation capacity on a huge scale.

The 2017 annual shareholders' meeting had agreed to the suggestion from the administration department to transform GK Software AG into a Societas Europaea (SE). As part of the process of involving employees, the employees' special negotiating committee at the business sites in the countries affected and the Management Board agreed to establish an SE works council, which has been constituted since mid-April. Once the agreement had been signed, all the conditions had been met for entering the SE change and GK Software AG became GK Software SE on 19 January. The change did not have any effect on the rights of shareholders or on existing contracts with the Company, as GK Software SE is the complete legal successor of GK Software AG.

With the agreement of the Supervisory Board, the Management Board of GK Software AG decided on 18 October to issue a secondary, unsecured convertible bond with a total nominal value of up to EUR 15,000,000 and with a term that runs until 26 October 2022. The net proceeds from the issue, which was oversubscribed several times, will largely help to fund further growth, where there are special plans for investments in solution features for new market segments and customer groups, new technologies like artificial intelligence, machine learning and the Internet of Things (IoT) as well as complementary products. Alongside this, some of the funds are set to be used for the long-term financing of the acquisition of prudsys AG, which was completed recently, and for general corporate purposes.

We continue to be confident that we will continue our growth course in 2018 and beyond too. We are observing a constantly increasing demand for our internationally 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 that our intensive discussions with potential customers from Germany and abroad will bear fruit, as in previous years. We believe that we are in an excellent position in several ongoing tender procedures with a view to the current financial year and we are also expecting further growth from our business with existing customers and will therefore be able to improve our profitability in this field too.

As we achieved one of the key parameters of our medium-term forecast for the 2016 - 2018 period, which was published in 2015, during 2017, we will replace this forecast with a new one looking forward to developments in the years 2018 - 2020. We are confident that we will be able to maintain our growth in turnover experienced in the past in future years too and plan to again increase our turnover compared to 2017 by about fifty percent during the next three years. We are once again expecting our turnover to expand significantly in 2018 and plan to increase our earnings in our core business to 15 percent and maintain this level during the next few years. We are also maintaining our provisos, as in the past, that expenditure for tapping into new markets, the postponement of fairly large customer projects or a deterioration in the overall economic situation could impair the achievement of this goal.

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

26 April 2018

The Management Board

Rainer Gläss

Rainer Gläss
Chief Executive Officer

André Hergert

André Hergert
Chief Financial Officer

Report by the Supervisory Board

Dear
shareholders,

The report by the Supervisory Board for the 2017 financial year at GK Software SE, which I am able to present to you here, once again relates to a successful year, even if we had to record a decline in profits, despite significant developments in turnover once again. The reason for this was largely to be found in the fact that one significant project materialised as a subscription agreement, where the appropriate payments will be distributed over a period of several years. However, overall, we are back on the road to achieving the good results that we were able to record in the highly successful years following our listing on the stock exchange. But we are fully aware that the interim difficult phase has not yet been completely overcome. We have learned that success is not automatic and therefore huge efforts are required to fully return to the pathway of success. Following the excellent intermediate results during the course of 2017, we continue to be convinced that the turnaround that is being sought has actually materialised and we hope that our expectations in terms of results will soon be fulfilled.

Composition of the Supervisory Board

In accordance with the articles of association, the Supervisory Board consists of three members. During the 2017 financial year, they were:

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

The complete Supervisory Board will need to be re-elected at the annual shareholders' meeting in 2018 because of the change to a Societas Europaea (SE). In line with this stipulation, all the members of the Supervisory Board are only appointed until the end of the annual shareholders' meeting in 2018.

Meetings

The Supervisory Board met for ordinary sessions on 27 February, 24 April, 28 August and 4 December 2017. Four meetings of the Supervisory Board were held as telephone conferences during 2017, when major decisions were about to be taken. They took place on 17 January, 19 April, 27 April and 18 October. The supervisory body also held separate preliminary meetings before each meeting of the Supervisory Board for the purposes of coordinating matters internally.

All the members of the committee were present for all the ordinary meetings and conferences. It is customary practice at GK Software 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 the Chairman of the Supervisory Board was particularly in contact with the Management Board and the members of the Group Management Board too. 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 2017 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 latest rules of procedure and it continually monitored the company's managers.

Following the personnel changes on the Management Board and the further management level during the two previous years, it was primarily necessary to continue to closely support the restructuring process that had been completed. Above all, the new process conditions on the Group Management Board had to be consolidated in order to be able to fully achieve the associated goals for the Company. It continued to be necessary for Mr Jaszczyk to not only press ahead with the development of the North American business, but also play an important role for the corporate group in developing our products as CTO in 2017.

The ongoing development and adaptation of the risk management systems has been 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 is being continually expanded, and on the ongoing 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 further fundamental improvement of the planning processes, which has since become an integral part of annual planning procedures.

The Supervisory Board also fully focused on the appropriateness of the remuneration for members of the Management Board as part of the necessary changes to the existing contracts of employment and pensions agreements. As in previous years, our attention was focused on the relationship between the remuneration payments and the Company's economic situation and on the conditions prevalent at other companies, the soundness of the overall structure of remuneration within GK Software and the composition of fixed and variable salary elements. After it had been established that there were significant deviations from the economic targets set for the 2017 financial year, the Supervisory Board markedly reduced the variable salary components for the Management Board and Group Management Board members in two cases and otherwise recognised the originally agreed amounts in terms of providing additional motivation.

In order to monitor the management team, the Supervisory Board was guided by the annual budget passed for 2017 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 particularly the case towards the end of the year when the expected and sought business results did not materialise as signalled, despite the positive developments in the course of business. 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 checked them with a critical eye.

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 2018. 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 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 terms of conflicts of interest in the members of the Supervisory Board in 2017.

Sustainability reporting

In line with the statutory provisions, an independent sustainability report is being published by GK Software SE for the first time together with this report. The Supervisory Board received explanations about the principles of reporting and the content of the sustainability report from the Management Board at the same time as the annual accounts and consolidated accounts in line with this stipulation.

2017 audit of annual accounts

The GK Software SE 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, PriceWaterhouseCoopers GmbH, Erfurt 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 SE and for the Group and the suggestion for using the profits from the Management Board for 2017. During its meeting on 24 April 2018, the Supervisory Board asked the Management Board to explain the 2017 annual and consolidated accounts with their not completely 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 paperwork and 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 raised during the meeting. There are no doubts about the auditors' independence. The Supervisory Board therefore approved the annual accounts for GK Software SE at its meeting on 24 April 2018 and endorsed 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 2018. 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 its agreement by voting in favour during its meeting on 26 April 2018.

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 2017. It joins with them in recording its delight that a return to a successful pathway has been achieved in the Company's results following the huge efforts made during the last few years; this then opens up the opportunity to achieve improved results in future. Its wish for all of them is that it will be possible to provide confirmation of their hard and successful work in the long term by the further improvements that are being sought.

Schöneck, 26 April 2018

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 declaration of compliance according to Section 161 of the German Companies Act. Monitoring compliance with the declaration is therefore viewed as an important task for the Management Board and the Supervisory Board. The declaration is issued 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 2018 annual shareholders' meeting and this 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 Company is geared towards the needs of its business. 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 SE 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 made in April 2017 and relates to the version of the Code dated 7 February 2017. The future corporate governance practices at GK Software SE in the following declaration also relate to the recommendations in the Code in its current version dated 7 February 2017.

On 26 April 2018, the Management and Supervisory Boards at GK Software SE declared that, since issuing the last annual declaration of compliance in April 2017, 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 2017, 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 at 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 not to reveal the individual salaries in the annual and consolidated accounts for 2015 - 2019 was adopted, 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 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 SE 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 SE does not form any committees due to the size of the committee (the Supervisory Board only consists of 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 committee, as the board members have the necessary qualifications for this.

Code number 5.4.1 The composition of the Supervisory Board at GK Software SE 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 greater 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 Supervisory Board only consists of three members when setting the target size for the share of women on the Supervisory Board.

Code 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.

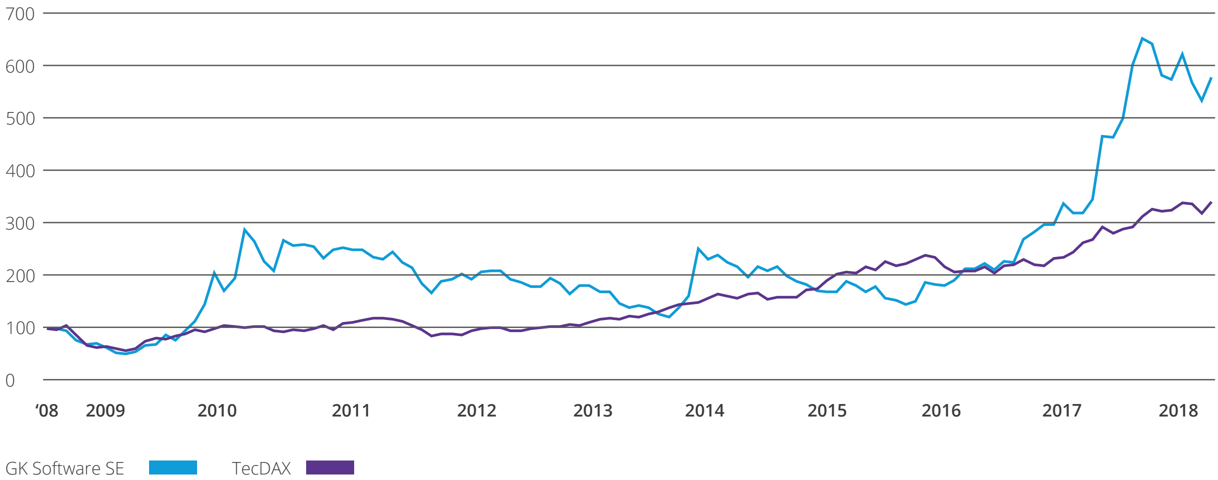
Code 7.1.2 The consolidated accounts are not published within 90 days after the end of the financial year, but after four months in line with the current guidelines published by Deutsche Börse AG. The interim reports are not made available after 45 days, but after two months according to the current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

GK Software SE Shares

Basic data

Share price development (indexed)

F.01 in %



Basic data

T.01

Securities Identification Number (WKN)	757142
ISIN	DE0007571424
Trading symbol	GKS
GK Software SE 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	1,903,200
Share capital	EUR 1,903,200
Free float	45.17 %
Highest price in 2017	EUR 132.00 (27 September 2017)
Lowest price in 2017	EUR 61.00 (27 March 2017)

Summary/share performance

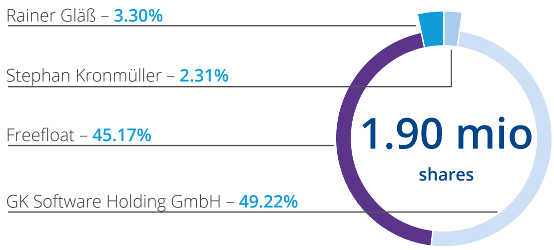
The GK Software SE shares listed on the Prime Standard section of the Frankfurt Stock Exchange registered an enormous upwards trend during the last financial year. The shares were worth EUR 115.10 at the end of the reporting period, having started the year at EUR 67.92 and reached values of more than EUR 130 in the meantime during the autumn. This corresponded to market capitalisation of EUR 219.1 million at the end of 2017.

Number of shares issued

The Company reported on 31 December 2017 that the total number of voting rights amounted to 1,903,200 shares.

Shareholder structure on 31 December 2017

F.02



Shareholder structure

GK Software SE 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 2017: Rainer Gläss, the founder and CEO, directly held 3,30 percent of the shares. Stephan Kronmüller, also a Company founder and the former Head of Technology and Development, directly held 2,31 percent of the shares. 49,22 percent of the shares were owned by GK Software Holding GmbH, which are indirectly and equally apportioned to the shareholders Rainer Gläss and Stephan Kronmüller. This created a free float of 45,17 percent on 31 December 2017.

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

Amounts exceeding the threshold value

T.02

Correct on	Shareholder	Proportion in %
17.3.2016[1]	Scherzer & Co. AG, Cologne	6.36
22 September 2016	Wilhelm K. T. Zours (of which Deutsche Balaton Aktiengesellschaft, Heidelberg with 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 2017

There were none during the 2017 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 SE also attaches particular 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, as well as 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 2018. 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 26 April 2018. 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

Group Management Report

Business and general conditions at GK Software

- **Corporate structure and holdings**
- **Twelve business sites in Europe as well as branches in the USA and South Africa**
- **Both company founders are actively involved in the Company**

GK Software SE[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 SE 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 28 years. The Company's flotation took place in the Prime Standard segment of the Frankfurt Stock Exchange in 2008. GK Software AG was transformed into GK Software SE on 19 January 2018.

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 SE is used, this exclusively refers to the individual company.

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
80,12%	prudsys AG
100%	Economically inactive legal units

The Company's headquarters have been located in Schöneck/Vogtl. since it was founded. Alongside its administration department, the product development department, project management and third-level support facilities are all based at this site. 1. Waldstrasse GmbH, which was founded to prepare for the takeover of new business activities, is another wholly owned subsidiary of GK Software SE. GK Software SE 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 location has been situated in Plzen in the Czech Republic for more than twenty 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 SE 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 German 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 smaller 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 SE 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 through 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.

GK Software SE (at the time still GK Software AG) took over the majority of shares in prudsys AG in Chemnitz on 1 November 2017. prudsys AG specialises in personalisation and dynamic pricing on the basis of an in-house solution that uses an artificial intelligence process.

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 around the globe. The "SAP Omnichannel Point-of-Sale 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). 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. Both were last re-elected to serve a further five years at the 2014 annual shareholders' meeting. Herbert Zinn was elected to the Supervisory Board for a five-year period too at the annual shareholders' meeting in 2011. This current period in office ends with the annual shareholders' meeting in 2020.

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 as well as 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. Another major factor is the margin of gross profits on turnover. We understand gross profits to be the excess of turnover over and above services purchased from third parties, semi-finished products and goods that were directly used to achieve this turnover revenue in order to be able to observe the influence and degree of outside services in the turnover that is generated. 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 of KPIs geared towards earning capacity, which concern 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 that 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.

The GK Software solution portfolio

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

The OmniPOS platform

GK Software is convinced that only innovative, marketing-driven retail companies with optimised logistics will be able to survive in the omni-channel world that is currently developing. 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 ensure 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 that 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 retail sector faces a number of major challenges for the future; this process is being driven by e-commerce. In order to cope with this digital transformation process, the retail sector has to find the correct answers to five main fields of digitalisation. They are: being customer-centred, smart retail technologies, expansion, process automation and the consumer supply chain. A customer-centred approach has a very high priority and means that all the processes and functions always have to be considered from the point of view of customers. The rapid speed of technological developments enables new technologies and devices to be used permanently and checks need to take place to see whether they improve the shopping experience for customers and open up new opportunities. In contrast to the cut-throat competition created by online retailers, the classic retailers will have to seek even more strongly than in the past to expand into new markets, enable franchise concepts or make them vertical. The optimisation of business processes on the basis of new technologies - artificial intelligence and machine learning should particularly be considered here - will significantly strengthen efficiency in many fields of activities. Not least, the retail trade will have to extend and improve supply chains to customers by using omni-channel concepts in order to offer them the same experience as e-commerce traders. All these processes, which are relevant to competition, demand a far greater use of modern technologies, end-to-end concepts and innovative approaches - exactly what has been included in the architecture of OmniPOS.

This is why the Company has made such significant investments during the last few years in order to enable the process of digital transformation with specific solutions. This has meant that significant parts of the range of solutions have been newly developed in order to safeguard the future viability of the GK range of solutions for years to come and not just rely on 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 one.

The new solution platform known as OmniPOS (POS = Point of Sale), which emerged from these investments, 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 a 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 huge number of customer devices, all at the same time.

The various GK Software products are brought together in the OmniPOS platform with their specific features. The Mobile Customer Assistant solution is part of the OmniPOS platform, which is used in the projects in a modular way, depending on what the customer wants. All the solution components are fully based on the same infrastructure, the same programming paradigms, Java and other modern programming languages as well as open standards. This means that they do not depend on any particular hardware or operating system.

OmniPOS was officially launched at the beginning of 2016. The company is continuing to maintain version 12 of the GK/Retail Business Suite, which was sold previously, and adapt it to special customer wishes. However, OmniPOS has been exclusively used in new projects since 2016.

Almost the complete portfolio related to the OmniPOS platform is being sold by SAP with identical features using the SAP Omnichannel Point-of-Sale by GK and SAP hybris Mobile Customer Assistant by GK product names.

Suitable for any sector
The OmniPOS platform is not geared to any individual retail segment, but is equally suitable for all the formats and segments in the tax-based retail sector - ranging from small stores to department stores, from food retailers to fashion and specialist retailers.

Suitable for any device
The OmniPOS platform has been designed to not just be used with a particular type of device or class of device in terms of its architecture. The underlying open client concept ensures that nearly all standard devices can be used on the basis of the same cloud-enabled services. They include mobile and stationary checkouts consisting of a wide variety of types of hardware, scales, self-checkouts, self-scanning devices, mobile data logging devices for employees, tablets or not least the broad variety of consumer smartphones.

For all store processes
OmniPOS not only takes over the classic checkout functions within a store, but is geared towards handling all the store-related business processes associated with goods, money and customers. As a result, the services on the platform handle all the functions necessary to operate stores, ranging from promotion management to in-store merchandising or price labelling and even cash management.

Secure operations
The daily operations involving thousands of devices and the central services associated with these are a huge challenge for any retailer. The issues of configuration and monitoring are therefore a central element in the OmniPOS platform. Operations can either be safeguarded by the retailer itself or by GK Software or a partner in the form of a cloud service.

Integrating the peripherals
The stores at retailers, particularly those in the food retail sector, are equipped with a wide range of different types of technology. The OmniPOS platform includes all these different peripheral items and handles the data supply and data removal in real time. This prevents any parallel flows of data and isolated solutions in stores, it simplifies operations for systems and reduces costs in the long term.

Central services for all the channels
One of the basic concepts of OmniPOS is that information for different channels and types of devices is made available centrally and can be

requested by various data users. Price calculations (Central Pricing Engine), managing promotions (Central Promotions Engine) or storing and making available points or virtual credit (Stored Value Server) are crucially important in an omni-channel world. These solution components are core services of OmniPOS and are available for all a retailer's channels with the same quality.

Artificial intelligence

One unique feature of the OmniPOS platform of solutions is the use of artificial intelligence to optimise decision processes involving large amounts of data. As part of this, machine learning supported personalisation allows customers to be addressed at all the touch points in a precise and targeted manner - whether in a store, on a mobile device or at the web shop. A second major area involves dynamic pricing, where the prices are calculated using artificial intelligence in order to optimise the turnover in simultaneous cooperation with the margins.

Ongoing product development

Investments were made in the ongoing development of the OmniPOS cloud solution and the Mobile Customer Assistant consumer platform during the whole of 2017. Both solutions successfully passed SAP's premium qualification process during the reporting year. New products and functions are checked by SAP as part of this kind of product test and in each case the current version was released for sale.

Other solutions in the portfolio

Payment services

In the field of payment services, GK Software offers a market-leading solution for handling payments in the USA in the form of TransAction+ and it is able to integrate a large number 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 manages 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 they are still in use at eight customers with approx. 4,670 installations. The particular high-performance features of the software were in the areas of SAP integration and mobile solutions. The SQRS solutions were no longer marketed 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.

AWEK develops and markets 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

In addition to software maintenance that is subject to charges, the purpose of which is to eliminate errors and faults, GK Software is able to offer full services to the retail trade too. 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, the company can handle other options like rollout services or staging (the initial installation of systems). A customer care management department has been established as part of the further expansion of the Company's service portfolio; it supports existing customers in a wide variety of tasks related to operating and adapting the solutions that they use. A special services department has also been established to help customers continually optimise their productive applications and the way that they interact.

Partner training

The GK Academy is responsible for providing qualifications for the implementation partners, customers' employees and training GK Software workers. 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 2017 to train implementation partners, which can then handle the introduction of GK/Retail themselves. Employees from 29 partners and eleven customers were trained during the course of the year and some of them are now already actively involved in implementing projects, for example. Eight more hardware partners also paid to have their devices certified by the GK Academy during last year.

Research and development

- **Research and development as a strategic factor in the face of competitors**
- **Constant expansion of investments in R&D safeguards 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 always 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 lion's share of the research and development department is based at the Eurosoftware s.r.o. subsidiary in Plzen, which is located in the "product development" section of the Group. The "product development" section incurred expenses amounting to EUR 9.45 million in total during the past year. Software developers are working in alternating teams in the research and development department and focusing exclusively on the latest trends in the software market in order to develop new, ground-breaking products from these. This work is being complemented within the company 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 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. The expenditure incurred for the GK Futurelab amounted to EUR 0.52 million in 2017.

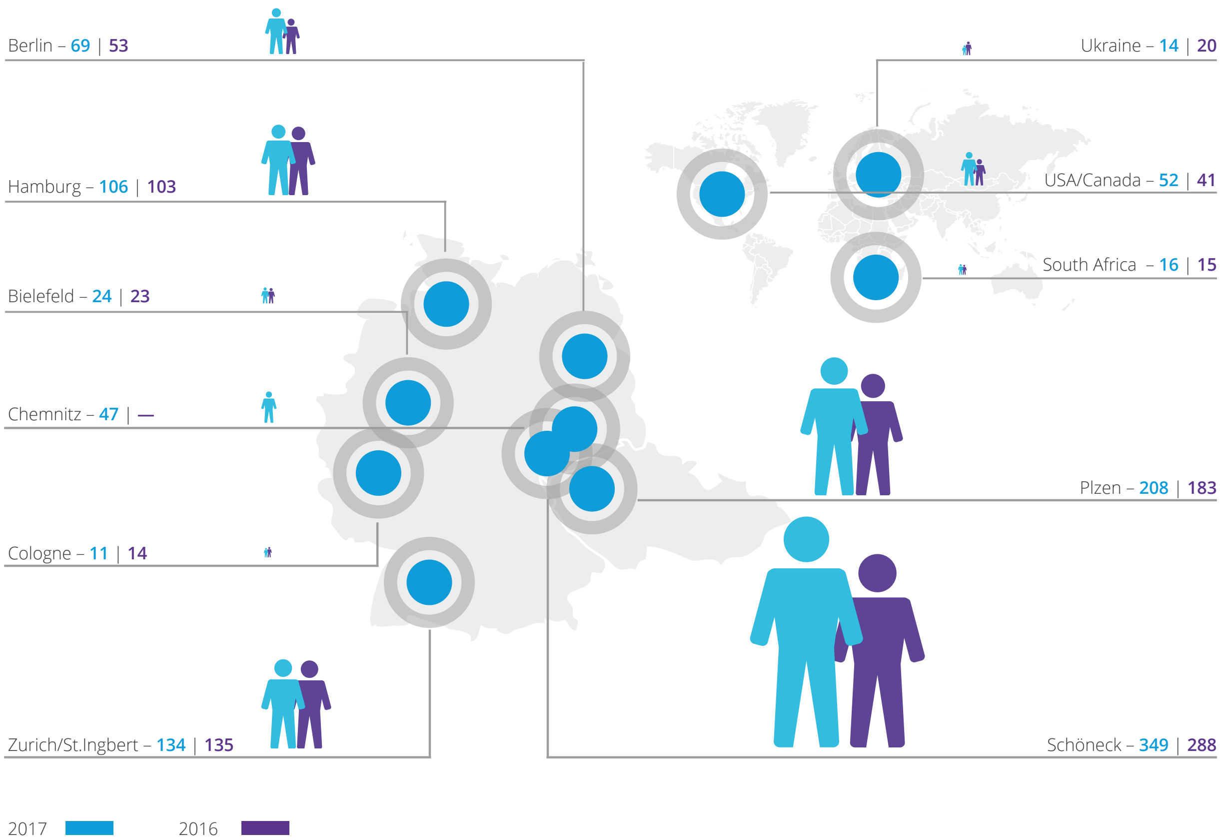
Other impulses for research work come from company managers, sales & marketing, partners as well as directly from GK Software's customers.

Overall, GK Software spent approximately EUR 1.45 million on research & development work during the 2017 financial year; this corresponded to 1.6 percent of turnover. 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 are permanently included in 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.

Distribution of employees at group business locations (from 5 employees) on 31 December 2017

F.04



Personnel

- Growth in personnel continues
- Further increases in numbers of employees at almost all the business sites

A total of 1,011 people were employed by the Group on the reporting date of 31 December 2017 (excluding members of the Management Board and trainees). As a result, there were 134 more employees than on the previous year's reporting date (877). Part of this increase is due to the 51 members of staff who have been added to the figure by the takeover of the majority of shares in prudsys AG since the beginning of November. With 349 staff members (previous year: 288), a significant proportion of the Group's employees are employed at the Schöneck business site. The Berlin branch now has 69 employees working in the sales & marketing, project and partner management, development and first-level support (hotline) departments (previous year: 53). The number of employees increased to 207 (previous year: 183) at the Czech subsidiary EUROSOFTWARE s.r.o. in Plzen. There were 106 employees at AWEK in Hamburg (previous year: 103) at the end of the year. They included a large number of mobile service technicians who are deployed at various sites throughout Germany. 24 employees were employed at AWEK's second business site in Bielefeld (previous year: 23); most of them work on software development. Overall, AWEK has 129 employees (previous year: 126). 129 people were working at the St. Ingbert business site at the end of the year (previous year: 130). Five people were working in Dübendorf (Switzerland) at this time (previous year: 5).

The branch in Cologne had 11 members of staff at the end of the reporting period, in comparison with 14 at the end of the 2016 financial year. At this time, 1 person was employed at the Russian branch at this time (previous year: 2). 51 people were working for GK Software in the USA (2016: 41). The South African subsidiary employed sixteen people on the reporting date (2016: 15). The number of people employed at the business site of the Ukrainian subsidiary in Lviv has been reduced from 20 to 13 since the end of 2016.

51 people were employed at prudsys AG on the reporting date; all of them bar one have their workplace at the company's headquarters in Chemnitz. This one employee works at the Berlin company branch of prudsys AG.

The Management Board expects the growth in employee numbers to continue at a moderate pace in future and the firm will primarily continue to look for highly qualified employees. The Company has introduced an extensive "Active Balance" programme during the last few years, primarily with a view to retaining and gaining employees, and its varied facilities for sport and leisure pursuits as well as simplifying the organisation of daily life have been very well received. The construction and design of the new Innovation Centre and the GK Campus in Schöneck, which includes an in-house fitness centre, a free cafeteria and a modern employee restaurant, are also covered by this programme.

Huge investments have been made in training and developing employees for years in order to be able to provide a foundation for and boost growth in turnover at GK Software from a human resources point of view too. 1,258 employees took part in training courses at the GK Academy during the first half of 2017, for example. New employees undergo extensive and standardised introductory courses, while a permanently adapted training programme is available for all employees too. The Company is also actively involved in training new or future employees. They include trainees on apprenticeship courses, students from universities of cooperative education or students on sandwich courses. Ten trainees and eight students (universities of cooperative education or sandwich courses) are currently employed at GK Software SE. Thirteen student trainees are also working at the firm and it is also supervising the degree dissertations of a further five students, who normally gain work experience at the firm. Not least, 27 school pupils from the region were given the opportunity of intensively getting to know the firm in the form of pupil placements or holiday jobs during the whole of 2017. These different measures are providing the first success stories in gaining new employees and the aim is to further intensify them in future.

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

Customers and projects

- **Further international sales success stories**
- **Omni-channel solution portfolio very competitive**

GK Software's customers come from almost all areas of the retail sector and are distributed around the globe. The important market sectors, where the Company is active, are primarily the food retail sector, drugstores & household goods, fashion & lifestyle. DIY & furniture markets or technology & cars. The products and services are primarily geared towards large and medium-sized enterprises and are particularly suitable for customers with many stores in several countries. GK Software currently has 241 customers. This figure includes 83 customers at prudsys AG, which was taken over in 2017, 38 customers from the retail segment of DBS Data Business Inc., which was taken over in 2015, and 20 customers at the AWEK Group, which was taken over in 2012. The Company maintains business relationships with 11 customers that are numbered among the 50 largest retailers in the world (GlobalTOP50). The Company has productive installations operating in 51 countries.

New customer projects in 2017:
The Company gained 14 new projects for GK/Retail during the reporting period and 3 for euroSUITE. In most cases, the customer's name is subject to secrecy until the rollout has taken place.

- A leading supermarket retailer (approx. 1,600 outlets in Spain)

- A leading supermarket operator (approx. 900 outlets in Switzerland)
- A fashion retailer (approx. 400 outlets around the globe)
- An international wine retailer (more than 300 outlets in Germany)
- A supermarket operator (approx. 270 outlets in Italy)
- An international retailer (a partial project involving approx. 250 stores in South Africa and India)
- A supermarket operator (approx. 200 outlets in Switzerland)
- A pharmacy chain (approx. 150 outlets in Saudi Arabia)
- A DIY store operator (approx. 100 outlets in southern Africa)
- A fashion retailer (approx. 100 outlets in Chile)
- A leading department store chain (approx. 60 outlets in France)
- A supermarket operator (approx. 50 outlets in Panama)
- A DIY store operator (approx. 30 outlets in Canada)
- A golf shop chain (approx. 200 outlets in North America)
- Sonderpreis Baumarkt (AWEK euroSUITE, 200 outlets in Germany)
- A department store (AWEK, euroSUITE, 1 outlet)
- A men's outfitters (AWEK euroSUITE, 15 outlets in Germany)

In terms of existing projects, 2017 was dominated by the successful start to pilot operations in several projects, rollouts and intensive change request business. OmniPOS was successfully rolled out at numerous customers in a wide variety of retail segments and was successfully put into service for the first time in Switzerland, the Netherlands and Mexico. Several existing customers are already testing a switch to OmniPOS at the moment. Three existing customers have already decided to introduce it and some of them have already rolled out the solution in several countries. We handed over and rolled out more country-specific versions in several ongoing projects, for example, in twelve countries in southern Africa. We have also been able to sign further contracts with existing customers and they cover, for example, extensions to licencing agreements or developing and adapting software or other services.

One piece of evidence for the vibrant partnership with SAP is that 60 joint customer projects now exist where GK solutions have been sold by SAP. The strategic relationship between both companies in the store sector was also reflected in their joint activities at the NRF in New York, the EuroCIS in Düsseldorf or the Retail Week in Paris, as well as numerous other coordinated activities.

Market and competitive environment

- **The German retail sector once again set new records in 2017 - turnover rose to EUR 512.8 billion**
- **E-commerce continues to grow - its share is now almost ten percent**
- **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. However, this provides some isolation in the Company's general operations from the developments in its original core markets – primarily in Central Europe – without these markets losing their significance for GK Software in the foreseeable future. The year 2017 also demonstrated 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 continues to be a major area of focus, as it is exerting a huge influence on retailers' strategic decisions in all markets. Beyond this, the introduction of genuine cloud services based on Enterprise POS solutions is becoming increasingly important for all sizes of retailers. Long-term issues like demographic developments, new ways of establishing customer loyalty or internationalisation also remain important driving forces and are becoming more and more connected to the mega-trend of omni-channel retailing. GK Software responded to these priorities in the retail sector at an early stage and has made significant preparations for the future with its new main product known as GK/Retail OmniPOS. The new cloud4retail service and the Mobile Customer Assistant customer loyalty solution are further strengthening the competitive position of OmniPOS. We are also expecting the same effect from integrating solutions on the basis of artificial intelligence.

Even if growth in 2017 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 in the sector. The German retail sector, Europe's largest retail market, had a very successful year again in 2017. After recent years were characterised by continuous growth, turnover actually rose by a further4.1 percent, which is 2.6 percent in real terms[1]. Overall, turnover in the retail sector (excluding vehicles, petrol stations, fuels and chemists) amounted to approx. EUR 512.8 billion in 2017[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 2.2 percent[3]. The retail trade therefore contributed 16.2 percent to GDP overall in 2017 and remains a leading sector for the general economy in Germany[4.]

The overall prospects for the European retail sector indicate an ongoing upward trend. [5]Turnover adjusted for inflation rose, for example, by between 0.7 and 3.7 percent on average in the months from January until November, in comparison with the figures for the previous year. [6]Turnover also rose in Great Britain despite the weakness of sterling in connection with the preparations for Brexit, after it had tended to stagnate until 2015. Turnover in the retail sector reached a figure of GBP 366 billion, which signified an increase of 4.5 percent over the previous year. [7]There has also been a continual upward trend in retail sales in the USA during the last few years and this has ensured greater activity in the world's largest retail market. [8]At USD 5.7 trillion, turnover in the retail sector exceeded the highest figure prior to the recession, which had reached 4.4 trillion in 2007, for the first time.

Developments in interactive retailing, i.e. mainly e-commerce and the mail order business without any services, continue to be dynamic. This business was able to increase its turnover once again by 10.9 percent to a figure of approx. EUR 58.5 billion. [9]This growth was mainly attributable to the

1 – https://einzelhandel.de/images/presse/Pressekonferenz/2018/HDE-Jahrespressekonferenz-Charts.pdf, p. 3

2 – https://einzelhandel.de/images/presse/Pressekonferenz/2018/HDE-Jahrespressekonferenz-Charts.pdf, p. 7

3 – https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2018/01/PD18_011_811.html

4 – https://www.destatis.de/DE/PresseService/Presse/Pressekonferenzen/2018/BIP2017/Pressebroschuere_BIP2017.pdf?__blob=publicationFile, p. 11

5 – http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=sts_trtu_a&lang=de

6 – Eurostatistics Data for Short-Term Economic Analysis, Issue Number 01/2018, p. 22 (Retail trade deflated turnover)
http://ec.europa.eu/eurostat/documents/3217494/8620024/KS-BJ-18-001-EN-N.pdf

7 – https://www.ons.gov.uk/businessindustryandtrade/retailindustry/datasets/poundsdatatotalretailsales

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

9 – https://www.bevh.org/presse/pressemitteilungen/details/datum/2018/januar/artikel/zweistelliges-wachstum-in-2017-und-weiterhin-gute-perspektiven-im-e-commerce/, p. 4

e-commerce sector, which increased by more than 10 percent to a figure of EUR 48.7 billion [1] and therefore accounted for 10 percent of the total turnover in the retail business [2]. This trend is expected to continue in 2018. According to initial estimates, online turnover in the current year is expected to be approx. EUR 53.4 billion [3]. This trend is even clearer in other important, leading retail markets like Great Britain (17.8 percent of total turnover [4]). However, it is not yet observable to the same degree everywhere. While the share of the online retail trade amounts to 10.0 percent of the total retail sector in France, the figure is only 3.4 percent in Italy or 4.8 percent in Spain, for example [5]. It should be generally assumed, however, that online retail sales will continue to grow in all developed retail markets. [6]

Omni-channel retailers continued to grow disproportionately in 2017 and increased their turnover by 21.0 percent to a figure of approx. EUR 20.1 billion; while the classic, purely online market places only grew by about 4.4 percent to a figure of EUR 27.9 billion. This means that in-store retailers, which can also have an online business, have been increasingly in a position to make use of their advantages arising from their combination of stores and web shops. [7]GK Software has been preparing its solutions for this development by moving in the direction of omni-channel retailing 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 523.1 billion for the entire retail sector in 2018. 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 the ongoing positive economic conditions and the dynamic growth in online retailing as the basis for continued, moderate growth [8].

The annual surveys of retailers in terms of their business prospects also support the HDE forecast that 2018 will be a positive year overall. The "e-KIX" retailers' survey conducted in December 2017 shows that approximately 85 percent of the retailers questioned expected their business to remain constant or improve over the twelve-month period [9].

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 2018, but is still positive. Overall, the GfK is expecting an increase in consumer expenditure in Germany of about two percent [10]. An increase in private consumption of between 1.5 and 2.0 percent is also expected for the whole of the European Union. [11] "The basic prerequisite for this is efficient and extensive digital infrastructure," said HDE President Josef Sanktjohanser, commenting on the fact that half the growth in retail sales is now generated online [12]. For stores, this statement is also supported by the study 'Kassensysteme 2018' ('Till Systems 2018') from the EHI Retail Institute. In line with this, 66 percent of those questioned indicated that they wished to renew their POS software by 2020. [13]

1 – https://einzelhandel.de/images/presse/Pressekonferenz/2018/HDE-Jahrespressekonferenz-Charts.pdf, p.8

2 – Own calculations

3 – https://einzelhandel.de/images/presse/Pressekonferenz/2018/HDE-Jahrespressekonferenz-Charts.pdf, p.8

4 – https://www.statista.com/statistics/281241/online-share-of-retail-trade-in-european-countries/ (estimated in 2017; details on Germany fluctuate depending on the source)

5 – Ibid.

6 – https://www.statista.com/statistics/261245/b2c-e-commerce-sales-worldwide/

7 – https://www.bevh.org/presse/pressemitteilungen/details/datum/2018/januar/artikel/zweistelliges-wachstum-in-2017-und-weiterhin-gute-perspektiven-im-e-commerce/

8 – https://einzelhandel.de/presse/aktuellemeldungen/10965-online-handel-bleibt-wachstumstreiber-hde-prognose-fuer-2018-umsatzplus-von-zwei-prozent

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

10 – http://www.gfk.com/de/insights/press-release/konsumeuphorie-leicht-gebremst/

11 – http://www.gfk.com/de/insights/press-release/deutschland-private-konsumausgaben-steigen-2018-um-zwei-prozent/

12 – https://einzelhandel.de/presse/aktuellemeldungen/10965-online-handel-bleibt-wachstumstreiber-hde-prognose-fuer-2018-umsatzplus-von-zwei-prozenthttp

13 – EHI Retail Institute, Kassensysteme 2018, Fakten, Hintergründe und Perspektiven, p. 30

The need for investments by 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 the importance of cloud services in the retail sector would grow significantly and 54 percent believe that introducing omni-channel projects will be their top priority.[1] The RIS News "Store Experience Study 2018" show that the retailers questioned will increase their IT expenditure by 5.6 percent annually on average in order to, for example, personalise the customer experience, make warehouse stocks visible, improve loyalty programmes or be able to use a standard customer database through all channels.[2] 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, for which GK Software is in an ideal position to cater 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.

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 by the retail sector will continue to provide sales potential in all the markets that are being actively processed in future too. The Company also expects the partnership with SAP in particular to lead to successes internationally and reinforce the Company's potential in the long term.

GK Software is currently in an excellent position in many ongoing tender procedures in different regions of the world 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.

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

2 – RIS News, Study: Store Experience Study 2018, p. 8

Explanations on the target/ performance comparison

The Management Board had issued the following quoted forecast for the financial performance indicators for the corporate Group operating under the umbrella of GK Software AG for the 2017 financial year.

> *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 associated with tapping into new geographical markets could continue to impair developments, as we already mentioned earlier. 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 again in 2017. By 2018, we had anticipated that we would be able to increase turnover with third parties 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.*

Developments during the 2017 financial year proved that the expectations formulated by the Management Board were largely fulfilled. The Group was able to increase its turnover by 17.0 percent to EUR 90.45 million compared to EUR 77.33 million in the previous year. However, this figure is still weighed down by the quicker than expected use of "Software as a Service" remuneration model (subscription) in the short term. It is true that EBIT rose significantly to EUR 4.99 million, but it was only possible to slightly exceed the previous year's level in terms of the EBIT margin (on turnover); the figure in 2017 was 5.5 percent - and 5.1 percent in 2016. However, we not only emphasised in the forecast that developments could be affected by factors in geographical target markets so that it would not be possible to guarantee a linear development towards the target margin in 2018; the faster than expected change to the "Software as a Service" (SaaS) remuneration model (subscription), the one-off costs incurred by transforming GK Software into an SE and the takeover of prudsys created negative forces in the development of earnings - and they alone explain the discrepancy with the constant linear development of EBIT towards the target figures. In the light of this, the EBIT margin of 5.5 percent (on turnover) achieved here lies fully within the framework of expectations in the 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. Interest has significantly increased because of the good reports about initial experiences with the OmniPOS solutions, which are now in productive use, and this remains in force. However, possible users still need to be convinced that the GK Software solutions will support them in future too.

The cost of tapping into the markets in North America and Africa is still having a significant effect on the profits at GK Software despite the sales successes there and this is causing us to continue this uncertainty factor from the previous year's forecast in the current one. It is true that the costs for this have been significantly reduced in Africa - not least through internal process improvements too - but the degree of efficiency achieved, particularly in the Americas, still significantly lags behind European levels. Other additional measures to eliminate these different levels of process inefficiency have once again been adopted and intensive work is also continuing to improve these processes in the European organisation too in order to permanently reach our strategic goal of covering the expenditure in our operational work through revenues from software maintenance and project work as well as 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 SE, 2017 was another successful year for the Group. For example, the Group was already able in 2017 to almost reach the turnover figure that represented the target for 2018 in our medium-term forecast for 2016 - 2018: We exceeded the previous year's results by EUR 13.12 million to reach EUR 90.45 million and therefore achieved an increase of 17.0 percent over the previous year's results of EUR 77.33 million.

We were also able to continue the process of stabilisation from the previous two years in terms of the development in earnings. Earnings before interest, tax, depreciation and amortisation (EBITDA) at EUR 8.77 million and earnings before interest and tax (EBIT) at EUR 4.99 million significantly exceeded the figures for the previous year (EUR 7.80 and EUR 3.94 million respectively) - but improved by much less if the increase in profitability is expressed as an EBIT margin on turnover. The EBIT margin on turnover increased from 5.1 percent to 5.5 percent.

On closer inspection, the following facts need to be taken into consideration: Firstly, we were able to register the first major Software as a Service (SaaS) turnover in 2017, which underlines the market potential of our cloud services, but also leads to the familiar negative entries in our results for this kind of business during the phase of switching from classic licence models ("perpetual licences") to subscription models. If this business had been concluded with a classic granting of usage rights as a "perpetual licence", turnover - subject to discounts needing to be granted - would have precisely reached the target for 2018 if there were no changes in costs. Another major issue concerns the development of costs, which were negatively affected on a single occasion by the introduction of different important products, which are designed to promote the strategic development of the Group. For example, the transformation of GK Software AG into a European limited company (SE), which has now been completed and the support for the process of acquiring prudsys AG together weighed on the Group's earnings to the tune of approx. EUR 0.47 million, when taken together. It is also necessary to state that while the establishment and stabilisation of our African business is making great progress, the development in North American again remained below our expectations. We have therefore make considerable efforts to place the business in North America on a solid basis. It was in fact possible to gain an important customer in the food retail sector after the balance sheet date, where as many as 6,000 systems will be equipped with our solutions.

As a result, the Group profits amounted to EUR 3.88 million in the 2017 financial year. If we take into account the effects described above and expectations, we certainly have good reason to be able to meet the expectation formulated in the forecast for the year 2018 of being able to achieve an EBIT margin of more than 15 percent in our core business.

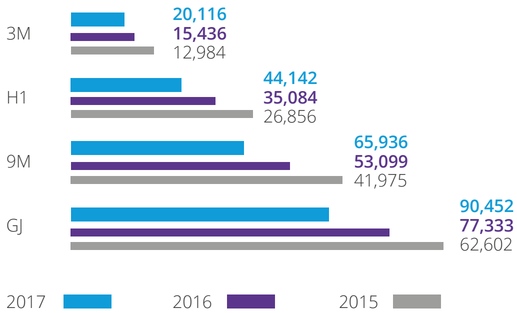
Total operating revenue

T.03

	31.12.2017		31.12.2016		Change	
	EUR K	in %	EUR K	in %	EUR K	in %
Sales	90,452	94.6	77,333	97.3	13,120	17.0
Own work capitalised	—	—	382	0.5	(382)	(100.0)
Operating revenues	**90,452**	**94.6**	**77,714**	**97.8**	**12,738**	**16.4**
Other operating revenues	5,197	5.4	1,769	2.2	3,428	193.8
Total operating revenues	**95,649**	**100.0**	**79,483**	**100.0**	**16,166**	**20.3**

Quartaly sales development compared to previous years in EUR K

F.05



Earnings situation

- Turnover: EUR 90.45 million
- EBITDA: EUR 8.65 million

The Group's total turnover rose by 17.0 percent from EUR 77.33 million to EUR 90.45 million. It was possible to significantly increase the figures in the GK/Retail and IT Services segments. Turnover rose from EUR 64,87 million to EUR 74.78 million or by 15.3 percent in our GK/Retail core segment; our IT Services business unit was able to record particularly gratifying results with an increase in turnover of 28.2 percent from EUR 11.59 million to EUR 14.86 million, while the SQRS business unit registered the planned decline in its turnover of -7.5 percent from EUR 0.88 million to EUR 0.81 million.

The development in the GK/Retail segment was based on gaining 14 new customers and intensifying business with existing customers and - to a lesser degree - on the inclusion of the business of prudsys AG, the majority of which was taken over on 1 November 2017; its turnover amounted to EUR 0.69 million.

The gratifying increase in turnover in the IT Services business segment was derived from the excellent development in demand for the solutions on offer and services for small and medium-sized retailers, while the planned decline in turnover in the SQRS segment continued to be due to the switch by customers in this segment to solutions from the GK/Retail segment.

The share of total turnover generated by the GK/Retail segment amounted to 82.7 percent, while the shares for IT Services and SQRS amounted to 16.4 and 0.9 percent respectively.

T.04 Turnover by segments

	FY 2017		FY 2016		Change	
	EUR K	in %	EUR K	in %	EUR K	in %
Turnover with						
GK Retail	74,783	82.7	64,866	83.9	9,917	15.3
SQRS	811	0.9	877	1.1	(66)	(7.5)
IT-Services	14,857	16.4	11,590	15.0	3,267	28.2
Total	**90,452**	**100.0**	**77,333**	**100.0**	**13,119**	**17.0**
Licenses	**16,178**	**17.9**	**12,393**	**16.0**	**3,785**	**30.5**
GK Retail	15,311	16.9	11,484	14.9	3,827	33.3
SQRS	—	—	—	—	—	—
IT-Services	867	1.0	909	1.2	(42)	(4.6)
Maintenance	**29,196**	**32.3**	**21,045**	**27.2**	**8,151**	**38.7**
GK Retail	19,412	21.5	12,799	16.6	6,613	51.7
SQRS	797	0.9	821	1.1	(24)	(2.9)
IT-Services	8,987	9.9	7,425	9.6	1,562	21.0
Services	**41,020**	**45.3**	**41,047**	**53.1**	**(27)**	**(0.1)**
GK Retail	39,554	43.7	39,833	51.5	(279)	(0.7)
SQRS	14	0.0	52	0.1	(38)	(73.1)
IT-Services	1,451	1.6	1,162	1.5	289	24.9
Other Business	**3,605**	**4.0**	**2,451**	**3.2**	**1,154**	**47.1**
GK Retail	115	0.1	353	0.5	(238)	(67.3)
SQRS	—	—	4	0.0	(4)	(100.0)
IT-Services	3,490	3.9	2,094	2.7	1,396	66.7
GK Academy	**452**	**0.5**	**397**	**0.5**	**55**	**13.9**
GK Retail	390	0.4	397	0.5	(7)	(1.8)
SQRS	—	—	—	—	—	—
IT-Services	62	0.1	—	—	62	—

If we look at the development of turnover according to types of work, growth was primarily achieved through increases in the maintenance and developing and adapting software areas.

The licence revenues amounted to EUR 16.18 million, EUR 3.79 million higher than in the previous year. This increase was achieved in the GK/Retail segment. This very gratifying figure of EUR 15.31 million in this segment basically reflects the fact that it was possible to gain 14 new customers for GK/Retail during the financial year. However, two effects need to be mentioned, which had an influence on the total figures. Firstly, it was possible to earn licence revenues for programming software to meet a customer's individual needs for the first time this year. This amounted to EUR 6.35 million and increased the stocks of licenced software needing to be maintained. The effects of licencing remuneration models based on subscriptions described at the beginning, however, negatively affected the product licence revenues in this segment in the reporting year to such a degree that they fell to EUR 8.96 million and were therefore lower than in the previous year (EUR 11.48 million). Our solutions for smaller and medium-sized retailers, which are made available using the “euroSUITE” brand, enjoyed almost the same high degree of demand and were able to record an almost constant inflow of new customers with turnover of EUR 0.87 million, as in the previous year (EUR 0.91 million).

Based on additional operational support work, which was the result of our efforts in the cloud field, the “maintenance” type of work grew particularly strongly by 38.7 percent from EUR 21.05 million to EUR 29.20 million, so that it was possible to significantly increase both the share of recurring turnover to almost one third (32.3 percent from 27.2 percent in the previous year) and also the absolute amount of this turnover.

Turnover for software development work, which is the result of introductory and adaptation services in customer projects, remained largely at the same level as in the previous year (2017: 41.02 million; 2016: EUR 41.05 million). This development is the result of our deliberate switch to programming software in line with customers’ individual needs, but it also an expression of the development of our US business, which remained below our expectations.

Other turnover primarily covered services for maintaining hardware at retailers’ stores in the IT Services business segment. This also included purchasing new hardware on behalf of customers and preparing this hardware for productive usage (so-called “staging”). Turnover revenues from the sale of hardware and from direct refunds of costs are included here to a small degree. As a result, the EUR 2.45 million increase in other turnover revenues to EUR 3.61 million was due to developments in the IT Services segment, as in the previous year. Turnover from maintaining hardware and staging hardware systems for use with euroSUITE were factors here.

The software solutions from GK Software were developed to such a degree in the 2017 financial year that the expenditure used for further developments could no longer be adequately separated from general improvements or took place in a new technological environment so that the success of measures was not yet certain; as a result, the company refrained from capitalising its own work. In the previous year, the figure for this was EUR 0.38 million.

As a result, the Group’s operating performance was EUR 90.45 million, after a figure of EUR 77.71 million had been recorded for the previous year. This represented growth of 16.4 percent. Other operating revenues, which amounted to EUR 5.20 million, reached a higher figure than in the previous year, when the figure was EUR 1.77 million. Total operating revenues at EUR 95.65 therefore exceeded the previous year’s figure by 20.3 percent.

Expenditure on semi-finished products, goods and purchased services amounted to EUR 8.53 million, EUR 0.85 million higher than in the previous year. Expenditure on goods used and semi-finished products rose by EUR 0.14 million and for project-related work by EUR 0.71 million to a total figure of EUR 5.88 million. While the increase in expenditure for goods used was due to the growth in the hardware maintenance business in the IT Services business segment, the increased expenditure in the field of purchased services was due to compensating for capacity bottlenecks.

Management stood by the decision made in previous years to further increase capacity for developing products and handling and completing projects in anticipation of a continuing rise in incoming orders (the increase in the number of projects was 24 in 2016 and 2017). As a result, the average number of employees over the year rose from 819 to a figure of 961. This annual average figure includes 47 people at prudsys, who joined the Group as a result of the takeover of the majority of shares in this company on 1 November 2017. The expansion in personnel resulted in an overall increase in personnel costs from EUR 47.67 million in the previous year to EUR 57.81 million in the year being reported. The increase of EUR 10.14 million amounted to approx. 21 percent. The personnel ratio (measured by turnover) rose by 2.3 percentage points to 63.9 percent because of the growth of turnover amounting to 17 percent. If the effects of starting to switch the licence model, which has already been mentioned several times, are taken as the reason for this, it also needs to be clearly stated that the considerable progress made during the past two-and-a-half years regarding the provision of services in Europe and Africa has not yet been repeated in the developments in the USA, as already mentioned above, when appraising the revenue situation and describing the developing in turnover for services. Even if it was possible to note some improvements, we once again made serious efforts during the course of the financial year to achieve figures comparable to the rest of the Group in North America too.

Other operating expenditure rose by EUR 4.21 million to a figure of EUR 20.54 million. This increase was largely due to three issues. Firstly, the general advisory costs of pursuing the transformation of GK Software AG into GK Software SE and the support for acquiring the majority holding in prudsys AG increased this figure by EUR 0.47 million compared to 2016. Another major driving force in the rise in costs was the increase in travel and marketing expenses because of the Group's increasing degree of internationalisation - as in previous years; this figure was EUR 1.23 million higher than in the previous year. The third cost driver involved the investments in the business site at Schöneck, which accounted for the largest part of the increase in costs of EUR 1.03 million.

Overall, this development led to EBITDA of EUR 8.77 million, following a figure of EUR 7.80 million in the previous year.

Depreciation and amortisation fell slightly to EUR 3.78 million during the reporting period, following a figure of EUR 3.86 million in the previous year.

Overall, costs increased by 15.11 percent so that GK Software achieved an EBIT figure of EUR 4.99 million, following a figure of EUR 3.94 million in the previous year; the effects of the transition phase to subscription licence fees, which has already been mentioned, and the one-off expenditure during the year also need to be taken into account.

The financial results were negative again at EUR (0.65) million (EUR (0.49) million in the previous year). Interest revenues amounting to EUR 0.13 million (EUR 0.15 million in the previous year) were countered by interest-bearing liabilities of EUR 0.79 million (EUR 0.64 million in the previous year).

T.05

Earnings figures

	31.12.2017		31.12.2016		Change	
	EUR K	in % [1]	EUR K	in % [1]	EUR K	in %
EBITDA	8,773	9.7	7,803	10.1	970	12.4
EBIT	4,993	5.5	3,942	5.1	1,050	26.6
EBT	4,340	4.8	3,452	4.5	888	25.7
Group result	3,884	4.3	2,826	3.7	1,058	37.4

1 – margin on turnover

Overall this led to consolidated net results of EUR 3.88 million, following a figure of EUR 2.83 million in the previous year. This amounted to undiluted earnings per share of EUR 2.05 (2016: EUR 1.50) and diluted earnings per share of EUR 2.00 in 2017 (2016: EUR 1.44).

Assets situation

The consolidated balance sheet total amounted to EUR 106.60 million on the reporting date and was therefore EUR 34.98 million higher than the figure of EUR 71.62 million on the last reporting date.

Non-current assets rose by EUR 7.35 million to a figure of EUR 44.72 million. Current assets without cash and cash equivalents rose by EUR 3.17 million to a figure of EUR 31.40 million, while cash and cash equivalents increased by EUR 24.46 million to a figure of EUR 30.48 million.

The equity ratio on 31 December 2017 amounted to 36.3 percent, after it had stood at 44.2 percent on the reporting date in the previous year. Equity amounted to EUR 38.67 million (EUR 31.65 million at the end of the previous year).

Debts at GK Software rose by EUR 27.97 million to a figure of EUR 67.93 million, following a figure of EUR 39.96 million in the previous year.

Assets situation

T.06

	31.12.2017 (audited)		31.12.2016 (audited)		Change	
	EUR K	in %	EUR K	in %	EUR K	in %
Non-current assets	44,724	42.0	37,370	52.2	7,354	19.7
Current assets without cash and cash equivalents	31,396	29.4	28,228	39.4	3,168	11.2
Cash and cash equivalents	30,479	28.6	6,017	8.4	24,461	>250
Assets	**106,598**	**100.0**	**71,615**	**100.0**	**34,983**	**48.8**
Equity	38,669	36.3	31,654	44.2	7,015	22.2
Non-current liabilities	29,657	27.8	14,843	20.7	14,815	99.8
Current liabilities	38,272	35.9	25,118	35.1	13,154	52.4
Liabilities	**106,598**	**100.0**	**71,615**	**100.0**	**34,983**	**48.8**

The increase in non-current assets by EUR 7.35 million is the result of the investments at the business site in Schöneck, which largely contributed to the increase in carrying amounts for property, plant and equipment by EUR 5.28 million, and the acquisition of the majority holding in prudsys AG, which caused the intangible assets to increase by EUR 1.53 million compared to the figure on the reporting date in the previous year.

The expansion work at the business site in Schöneck was motivated by the construction of our Innovation Centre and the Campus. EUR 3.96 million in all was spent on investments in buildings and EUR 3.08 was incurred to equip these new facilities and the workplaces of new employees and make necessary replacement investments. This was countered by scheduled depreciation amounting to EUR 1.90 million in all. The intangible assets primarily increased in comparison with the previous year because of the acquisition of the majority holding in prudsys AG. As a result, the value of the core product at prudsys AG in terms of artificial intelligence, the Real-time Decisioning Engine (RDE) was set at EUR 2.44 million as part of allocating the purchase price. Customer relations were also identified as an asset as part of acquiring the company and were estimated at a figure of EUR 1.64 million. Goodwill was determined at EUR 0.12 million as part of allocating the purchase price. Scheduled amortisation of intangible assets amounting to EUR 3.36 and changes in the intangible assets caused by currency rates and amounting to EUR 1.92 million countered these accruals.

Deferred tax assets amounted to EUR 5.15 million and were therefore EUR 0.51 million higher than in the previous year. This figure involves sums that were included on account of losses carried forward from previous years and still amounted to EUR 2.18 million. We assume that these will be fully recognised because of the expected development of the corporate Group during the next few years.

The changes in current assets without cash and cash equivalents by EUR 3.17 million were mainly due to a strong increase in accounts receivable from ongoing work by EUR 1.65 million compared to the previous year - i.e. on the basis of these kinds of services, which were provided between two project milestones without them having been accounted for and particularly relating to work performance in the last quarter of the year under review. Other accounts receivable and assets, which rose by EUR 1.86 million, were significantly higher than in the previous year, while the trade accounts receivable were EUR 0.32 million lower and stocks of semi-finished and finished goods were EUR 0.18 million lower than the figures for the previous year. The increase in “Other accounts receivable” was based on the rise in deferred accruals and deferrals from EUR 1.47 million to EUR 2.01 million because of the advance payments made on maintenance services for key IT equipment and trade fairs, as well as claims from interest and currency hedging business, which exceeded the previous year’s figure by EUR 0.86 million.

Cash and cash equivalents amounted to EUR 30.48 million and were therefore EUR 24.46 million above the figure of EUR 6.02 million on the reporting date in the previous year. The major elements in this development were due to the Group’s funding activities and the results of its operational business. This included the issue of the convertible bond for EUR 15 million, taking out loans from banks, which totalled EUR 3.55 million in conjunction with the repayments on existing loans.

The non-current debts increased by EUR 14.81 million compared to the balance sheet reporting date in the previous year. The reasons for this could be found in the increase in other non-current liabilities by EUR 13.15 million, which is solely accounted for by the issue of the convertible bond, and the decline in non-current liabilities with banks, which were reduced by EUR 3.50 million through ordinary repayments assigned to the current area; at the same time, this figure increased again because of taking out another loan amounting to EUR 2.75 million (of which EUR 2.61 million is non-current). The increase in deferred tax assets and liabilities by EUR 1.69 million can be explained by the acquisition of prudsys AG, because deferred tax claims amounting to EUR 1.31 million were identified as assets as part of allocating the purchase price.

Current debts rose in comparison with the previous year by EUR 13.15 million to EUR 38.27 million and primarily consisted of the increase in other current liabilities by EUR 8.40 million, current bank liabilities by EUR 4.53 million and advance payments received amounting to EUR 0.59 million. The increase in “Other current debts” was primarily due to the increase in liabilities arising from wages and salaries by EUR 2.56 million (because of the growth in the number of members of staff) and in accruals and deferrals as liabilities (EUR 0.87 million) because of the increase in our customers’ software maintenance contracts that did not match the calendar year. The change in current bank liabilities was primarily caused by short-term funding for the acquisition of the majority holding in prudsys AG.

Financial situation

The cash flow from operating activities in the narrower sense – i.e. without any change to net current assets – increased from EUR 7.95 million in the previous year to EUR 15.22 million, i.e. by EUR 11.52 million. The main reasons for this were the improvement in the annual results compared to the previous year and in charges on the cash flow in the narrower sense by foreign currency profits and losses, which exceeded the previous year’s figures on balance by EUR 1.27 million.

The changes to net current assets on the reporting date had a positive impact of EUR 6.28 million on the cash flow, in contrast to a figure of EUR (2.90) million that weighed on results in the previous year. Increases in trade receivables from ongoing work by EUR 1.65 million and the rise in other accounts receivable by EUR 1.65 million weighed on the figures. On the other hand, the reduction in stocks by EUR 0.18 million, the increase in trade accounts payable and other liabilities without income taxes by EUR 7.76 million and the increase in advance payments received by EUR 0.59 million all helped improve the figures.

Taking into account the balance of paid and received interest and income taxes paid, the inflow in cash and cash equivalents from operating activities amounted to EUR 15.22 million, following an outflow of EUR 3.70 million during the previous year.

The outflow of cash and cash equivalents from investment activities increased to EUR 9.24 million during the financial year because of the investments described in the assets situation, compared to a figure of EUR 5.10 million in the previous year.

The funding activities of GK Software were largely dominated by the issue of the convertible bond and the scheduled repayment of loans. While EUR 3.50 million was spent on the latter, new loans worth EUR 22.25 million were taken out (including the convertible bond worth EUR 15.00 million and EUR 5.00 million for the short-term funding of the acquisition of prudsys AG). Overall, funding activities led to an inflow of liquid funds amounting to EUR 19.12 million.

In total, stocks of cash and cash equivalents therefore increased by EUR 25.07 million to a figure of EUR 30.48 million during the financial year because of the effects explained and the company made use of a current account credit lines and credit cards to the tune of EUR 2.54 million.

Because the Group’s financial managers are seeking to meet the goal of guaranteeing that the company will be able to service its loans and debts at all times and have adequate liquidity to secure investment projects, it places the highest priority on maintaining capital.

Liabilities amounting to EUR 38.27 million will have to be serviced during 2018. Liquid assets amounting to EUR 30.48 and current liquid assets amounting to EUR 31.40 million countered these liabilities.

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 2018 and the remaining EUR 1.59 million is due between 2019 and 2020.

The Management Board believes that an adequate funding framework and funding opportunities have been established for the Group's current potential. The general conditions for funding need to be constantly compared with investment opportunities and adjustments have to be made, if necessary.

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 was stable because of various one-off costs incurred, the gratifying start to the process of a change in licence revenues and the performance parameters by the US part of our GK/Retail core segment, which are not yet satisfactory, based on the measures introduced since 2015 to make improvements to the production structure, and is improving, but has not yet achieved the potential that is available. Taking into account the special factors already mentioned, 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 in its medium-term forecast dating from the annual 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) and the margin on operating performance derived from this to determine earnings. In this sense, we refer to the forecast report for the development of these key figures.

T.07 Financial performance indicators

		31.12.2017	31.12.2016
Gross earnings margin on turnover	%	96.3	92.8
Personnel ratio	%	63.9	61.6
EBITDA margin on operating performance	%	9.7	10.1
EBIT margin on operating performance	%	5.5	5.1
Equity ratio	%	36.3	44.2
Investment ratio I	%	42.0	52.2
Excess in cash and cash equivalents over interest-bearing liabilities	EUR K	11,305	(8,746)

If we consider the first two points in the special factors affecting the results (switching to subscription remuneration for licencing operations, the transformation to an SE, the acquisition of prudsys), it can be concluded that the Group would have reported an EBITDA margin on turnover in the reporting year if the conditions had remained constant, which would have increased by 2 - 2.5 percentage points. The same would have applied to the EBIT margin. It is harder to make an estimate about the contribution to be expected from the North American parts of the Group. Assuming similar performance parameters as in the rest of the Group would increase the figures for the two margins by an additional 3 - 4 percentage points.

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 to analyse developments and discrepancies from plans. 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 are not 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 2018 - 2020.

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 of 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 them.

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 increases 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 fairly 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

Customer and market-related risks 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 2017 and previous years and also the prospects for 2018 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 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 calm, 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. The main tool for preventing objective errors and undesirable developments has been the increasing use of general project approaches during the past few years, which are designed to ensure that all the major general conditions are set in conjunction with each customer and are then taken into account accordingly in the project work. However, as objective factors are not the only criteria in assessing the quality of project work, GK Software also makes use of subjective influences. GK Software views the degree of customer satisfaction and the number of new customer contacts as an important indicator for assessing risks of this kind. 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 development of 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 taking place 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. In addition to these general risks emerging from market operations, internal organisational risks occur based on the internationalisation aspect and they concern protecting the parent company from possible risks arising from actions by the domestic and international subsidiaries or recognising these risks that pose a threat to the existence of the subsidiaries at an early stage and introducing suitable countermeasures. The Group is continuing to develop its controlling operations for holdings for this purpose.

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 initiated other measures like our "Active Balance" programme, which promotes a variety of joint activities by employees including minor services designed to make everyday life easier; this aims to increase the attractiveness of the Company as an employer. We wish to reinforce this even more by planning and designing our corporate campus at the Company's headquarters in Schöneck.

Overall, GK Software analyses these risks, which could have considerable effects on the company's financial and earnings situation in the long term. However, no indicators or only mild ones, which could point to these risks occurring, can be seen at the moment.

In the light of the fact that the Group manages 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 that 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.

Overall, GK Software assesses these financial risks as operational risks, which may have a significant effect on the company's financial and earnings situation. However, no indicators or only mild ones, which could point to these risks occurring, can be seen at the moment.

The situation in 2017 only changed gradually in comparison with the risk situation in 2016. In particular, the major operational risks have not increased to a great degree. It is true that the complexity of projects is increasing, but the Group is also learning how to better cope with these 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 2017.

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 SE tries to bring together 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 1,110 K arise if there is a ten-percent increase and/or decline in the value of the euro in comparison with these currencies (EUR 1,036 K in the previous year). EUR 1.247 K (previous year: EUR 942 K) of these risks were 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 2017, which were either paid for in a currency other than the euro or not billed in the currency in which the services were provided to the third parties. These service invoices were settled in Czech crowns, Russian roubles, Ukrainian hryvnia, Swiss francs or US dollars.

An interest and currency 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 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 have had to 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 7,000 K (USD 7,417 K) amounted to a total figure of EUR 856 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 844 K were made during the reporting year and were entered in 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 244 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 32 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. 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 2017 or on the publication date of 26 April 2018.

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 262,000 installations in over 42,000 stores in more than 50 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 50 countries and can therefore be quickly transferred to other foreign customers.

The growth prospects in Germany have not yet been exhausted by a long way either. The focus of the Group will primarily 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 SE completes the accounts for the German subsidiaries or branches of subsidiaries as a service with the exception of prudsys AG, AWEK GmbH and AWEK Microdata GmbH. The independent accounting procedures for the German companies mentioned here are (or are being) closely integrated in the central accounting structures at GK Software SE. The accounting procedures for the foreign Group companies are handled locally. The increasing importance of the subsidiaries - particularly the companies overseas - made it necessary to set up a holding management department in the past and this is designed to guarantee through information obligations by the holding companies that the parent company receives all the necessary information about the earnings, asset and financial situation promptly, but also about the companies' major non-financial indicators. The holding management department is being continually developed.

The accounts for GK Software SE 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 2018 too 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 right course for our business. We are continuing to pursue an important goal of covering operational expenditure completely or almost through revenues from project services, software maintenance and retail services in order to uncouple the revenue situation from previous fluctuations.

The goal of our previous medium-term strategy until 2018 remains unchanged. That is to say, we wish to return to the familiar profit margins of more than 15 percent (EBIT margin on operating performance) for our 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 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 again in 2018. However, as we achieved a significant part of our medium-term forecast, which originally extended as far as 2018, during the past financial year, we are issuing a new medium-term forecast up until 2020 to coincide with this financial report.

We are confident that we will be able to continue our growth in turnover during the next three years and have again set the goal of increasing our turnover compared to the figure in 2017 (EUR 90 million) by about fifty percent by 2020. We wish to increase our earnings in our core business to about 15 percent in 2018 and achieve this figure in the next few years too.

We are therefore maintaining our provisos, as in the past, that expenditure for tapping into new markets, the postponement of fairly large customer projects or a deterioration in the overall economic situation could impair the achievement of this goal.

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, our experience shows that expansion into new geographical markets may cause friction based on cultural differences, which could temporarily prevent us from reaching this target. The number of customer contacts will probably increase due to our entry into other markets. At the same time, we are expecting that we will be able to make even better use of the opportunities that arise.

We would explicitly repeat here once again that these estimates are only realistic if no external political or economic shock situations take place, particularly in the light of the growing number of political or economic uncertainty factors around the globe. These kinds of problems, which affect the whole economy, could lead to a curb on the readiness of the retail sector to make investments around the world or in particularly large geopolitical regions and this could logically have a negative effect on the turnover and earnings potential at GK Software.

The 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 315a of the German Commercial Code

Principles of the remuneration system at GK Software SE

The members of the Management Board at GK Software AG 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 targets 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 2017. Overall, the members of the Management Board were able to hold more than 44,000 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 52 percent and 48 percent of earnings determined in a variable manner were paid out or offered as bonuses during the course of 2017. 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.

Details according to Section 315a of the German Commercial Code

1. **Capital ratios.** The equity capital at GK Software SE amounted to EUR 1,903,200.00 on 31 December 2017 and was divided up into 1,903,200 no-par ordinary shares with a calculated 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. The Company's equity capital caused by the issue of employee shares from the contingent capital nominally amounted to EUR 1,919,875.00 on 31 March 2018 and was divided up into 1,919,875 no-par ordinary shares with a calculated share in the equity capital of EUR 1.00 each.

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 (27.9 percent), of which 468,350 shares are indirectly held by GK Software Holding GmbH.

   b. Mr Stephan Kronmüller directly or indirectly holds 512,350 shares (26.9 percent), of which 468,350 shares are indirectly held by GK Software Holding GmbH.

   c. GK Software Holding GmbH directly holds 936,700 shares (49.2 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 1,043,492 voting rights), 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 repurchase shares.**
   Contingent capital I. 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 until 14 May 2013, by the annual shareholders' meeting on 15 May 2008.
   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 6 July 2016, if the conditions for exercising them 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 was not possible to exercise them until 10 May 2017, if the redemption conditions were met. 1,750 of these options were forfeited on 31 December 2017. 13,200 options had been exercised by 31 December 2017. 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 are fully authorised to attract profits from the 2017 financial year onwards.
   No other share options can be granted from this contingent 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

(contingent 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, 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.
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 contingent 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 could be exercised for the first time on 27 August 2017, as the exercise conditions had been met. 7,675 options of these options were exercised by the authorised persons by 31 January 2018.
Another 14,000 share options were offered to employees at the Company during the 2013 financial year. These could be exercised for the first time on 11 November 2017, as the redemption conditions had been met. 2,500 options of these options were exercised by the authorised persons by 31 January 2018. A further 6,500 options had been exercised by 31 March 2018.
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 exercise conditions are met. Of these, a total of 1,500 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. They can be exercised for the first time on 1 December 2018, if the redemption conditions are met. 4,000 of these options were forfeited by the end of the 2016 financial year.
A further 8,500 options were issued on 20 June 2017. The full number is still outstanding and they may be exercised for the first time on 19 Jun3 2021, if the conditions for doing so are met. The exercise price is EUR 92.10.
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 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.
A share option scheme from contingent capital III. 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 1 November 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 30 November 2019, if the conditions for exercising them are met. 5.000 of these share options were granted to members of the Management Board. 1,575 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 29 August 2020, if the con-

ditions for exercising them are met. 10,000 of these share options were granted to members of the Management Board.
A further 16,000 share options were issued on 4 December 2017. They cannot be exercised for the first time until 3 December 2021. The exercise price is EUR 116.69. 10,000 of these options were issued to the 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 made out to the holder or name 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 contingent capital IV. of up to EUR 250,000.00 subdivided into 250,000 no-par shares made out to the holder for this purpose. The Company issued a convertible bond with a term until October 2022 and a total nominal value of EUR 15 million on 19 October 2017, using part of this contingent capital. This convertible bond can be converted into 96,775 new or existing GK Software ordinary shares made out to the holder. They have a term of 5 years and were issued with 100% of the nominal amount and are subject to an interest coupon of 3.00% p.a. The initial bond price was EUR 155.00.

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

Declaration by company management according to Section 315d in conjunction with Section 289f of the German Commercial Code

Declaration 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

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Consolidated Financial Report

Consolidated Balance Sheet

on 31 December 2017

Assets

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EUR	Notes No.	31.12.2017 (audited)	31.12.2016 (audited)
Property, plant and equipment	2.1.; 3.1.	14,183,336.51	8,901,911.66
Intangible assets	2.2.; 3.2.	25,359,211.10	23,827,867.37
Financial assets	2.4.	32,800.00	6,660.00
Active deferred taxes	2.12.; 3.13.	5,148,550.98	4,633,639.37
Total non-current assets		**44,723,898.59**	**37,370,078.40**
Goods	2.3.; 3.3.	798,167.37	955,799.48
Auxiliary materials and supplies	2.3.; 3.3.	192,190.38	224,437.31
Initial payments made	3.3.	53,734.64	44,202.34
Trade accounts receivable	2.5.; 3.4.	17,710,862.42	18,031,736.01
Trade accounts receivable from ongoing work	2.13.; 3.5.	5,128,616.66	3,480,270.93
Income tax claims	2.12.; 3.7.	450,120.57	281,750.19
Accounts receivable with associated firms	3.6.	303.44	2,820.45
Other accounts receivable and assets	2.4.; 2.5.; 3.7.	7,061,812.65	5,206,555.81
Cash and cash equivalents	2.6.; 3.8.	30,478,647.96	6,017,394.86
Total current assets		**61,874,456.09**	**34,244,967.38**
Balance sheet total		**106,598,354.68**	**71,615,045.78**

Liabilities

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EUR	Notes No.	31.12.2017 (audited)	31.12.2016 (audited)
Subscribed capital	3.9.	1,903,200.00	1,890,000.00
Capital reserves	2.7.; 3.9.	20,488,398.07	18,587,965.03
Retained earnings	3.9.	31,095.02	31,095.02
Other reserves (OCI from introducing IAS 19 2011, IAS 21)	3.9.	(704,931.80)	(853,054.50)
Profit brought forward		11,998,085.79	9,172,219.74
Shortfall for period minorities interests		3,881,927.99	2,825,866.05
Total equity without minorities interests in equity		**37,597,775.07**	**31,654,091.34**
Minorities interests in equity		1,071,074.55	—
Total equity		**38,668,849.62**	**31,654,091.34**
Provisions for pensions	2.8.; 3.10.	1,879,609.00	1,766,974.00
Non-current bank liabilities	2.9.; 3.11.; 3.20.	8,866,886.24	8,986,687.12
Convertible bond	3.12.	13,149,384.07	—
Deferred government grants	2.10.; 3.13.	910,143.17	926,136.83
Deferred tax liabilities	2.12.; 3.14.; 4.9.	4,851,117.81	3,162,764.06
Total non-current liabilities		**29,657,140.29**	**14,842,562.01**
Current provisions	2.11.; 3.15.	1,346,435.90	1,455,457.83
Current bank liabilities	2.9.; 3.11.	10,306,580.66	5,776,643.68
Liabilities from trade payables	2.9.; 3.16.	1,835,478.35	2,187,040.24
Initial payments received	2.9.; 3.17.	857,785.28	269,587.96
Income tax liabilities	2.12.; 3.18.	488,415.21	392,446.33
Other current liabilities	2.9.; 3.19.	23,437,669.37	15,037,216.39
Total current liabilities		**38,272,364.77**	**25,118,392.43**
Balance sheet total		**106,598,354.68**	**71,615,045.78**

Consolidated Profit and Loss Statement and Other Results

for the financial year from 1 January to 31 December 2017

Consolidated profit and loss statement

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EUR	Notes No.	2017	2016
Ongoing business operations			
Turnover revenues	2.13.; 4.1.	90,452,301.57	77,332,612.02
Own work capitalised		0.00	381,689.00
Other operating revenues	4.2.	5,196,864.97	1,768,668.62
Turnover and other revenues		**95,649,166.54**	**79,482,969.64**
Materials expenditure	4.3.	(8,529,732.23)	(7,680,693.58)
Personnel expenditure	4.4.	(57,808,910.71)	(47,669,259.45)
Depreciation and amortisation	3.1.; 3.2.; 4.5.	(3,780,328.91)	(3,860,678.44)
Other operating expenditure	4.6.	(20,537,409.28)	(16,329,889.01)
Total operating expenses		**(90,656,381.13)**	**(75,540,520.48)**
Operating results		**4,992,785.41**	**3,942,449.16**
Financial income	4.7.	132,809.36	146,412.73
Financial expenditure	4.7.	(786,068.56)	(637,160.67)
Financial results		**(653,259.20)**	**(490,747.94)**
Income tax results		**4,339,526.21**	**3,451,701.22**
Income taxes	2.12.; 4.8.	(455,844.09)	(625,835.17)
Consolidated surplus/ shortfall for the period		**3,883,682.12**	**2,825,866.05**
of which minorities in the equity capital		1,754.13	—
of which attributable to the owners of the parent company		**3,881,927.99**	**2,825,866.05**
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.;4.10.	87,401.00	(76,703.02)
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.	60,721.70	(285,098.57)
Overall results		**4,031,804.82**	**2,464,064.46**
Minorities in the equity capital		1,754.13	—
of which attributable to the owners of the parent company		4,030,050.69	2,464,064.46
Earnings per share (EUR/ share) from the consolidated surplus/ shortfall - undiluted	4.9.	**2.05**	**1.50**
Earnings per share (EUR/ share) from the consolidated surplus/ shortfall - diluted	4.9.	**2.00**	**1.44**

Consolidated Statement on Changes in Equity

for the financial year from 1 January to 31 December 2017

Consolidated Statement on Changes in Equity

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EUR	Subscribed capital	Capital reserves	Retained earnings	Other reserves	Consolidated earnings (parent company)	Equity (parent company)	Minority interests in equity	Total
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**	**0.00**	**28,966,649.62**
Share option scheme	0.00	223,377.26	0.00	0.00	0.00	223,377.26	0.00	**223,377.26**
Allocation based on IAS 19	0.00	0.00	0.00	(285,098.57)	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)	0.00	**(76,703.02)**
Consolidated profit/ loss for the period	0.00	0.00	0.00	0.00	2,825,866.05	2,825,866.05	0.00	**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**	**0.00**	**31,654,091.34**
Share option scheme	13,200.00	616,529.86	0.00	0.00	0.00	629,729.86	0.00	**629,729.86**
Convertible bond	0.00	1,283,903.18	0.00	0.00	0.00	1,283,903.18	0.00	**1,283,903.18**
Corporate mergers	0.00	0.00	0.00	0.00	0.00	0.00	1,069,320.42	**1,069,320.42**
Allocation based on IAS 19	0.00	0.00	0.00	87,401.00	0.00	87,401.00	0.00	**87,401.00**
Allocation based on IAS 21	0.00	0.00	0.00	60,721.70	1,069,320.42	1,069,320.42	0.00	**60,721.70**
Consolidated surplus/ shortfall for the period	0.00	0.00	0.00	0.00	3,881,927.99	3,881,927.99	1,754.13	**3,883,682.12**
Figures on 31 December 2017	**1,903,200.00**	**20,488,398.07**	**31,095.02**	**(704,931.80)**	**15,880,013.78**	**37,597,775.07**	**1,071,074.55**	**38,668,849.62**

Consolidated Cash Flow Statement

for the financial year from 1 January to 31 December 2017

Cash flows from operating business

T.12

EUR K	Notes No.	2017 (audited)	2016 (audited)
Cash flows from operating business			
Surplus/ shortfall for period		3,884	2,826
Share option scheme (non-cash expenditure)		247	223
Income taxes affecting results		456	626
Interest expenditure affecting results		844	637
Interest income/ expenses affecting results		(133)	(146)
Profit/ loss from the sale or disposal of property, plant and equipment		(13)	11
Reversals of deferred public sector subsidies		(16)	(41)
Write-downs recognised for receivables		319	483
Write-ups recognised for receivables		—	—
Depreciation and amortisation		3,780	3,861
Actuarial gains/ losses		(534)	(285)
Net foreign currency losses		682	(459)
Net profits from financial tools assessed at their fair value		(828)	212
Other non-cash revenues and expenditure		3	—
Cash flow from operating business		**8,691**	**7,948**
Changes in net current assets			
Changes in trade accounts receivable and other receivables		(2,223)	(3,479)
Changes in inventories		183	487
Changes in trade accounts payable and other liabilities		7,757	4,713
Changes in initial payments received		588	(3,735)
Changes in provisions		(23)	(888)
Interest paid	5.	(423)	(475)
Income taxes paid	5.	674	(872)
Net inflow of funds (net outflow in previous year) from operating activities Amount carried forward		15,224	**3,699**

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

T.13

EUR K	Notes No.	2017 (audited)	2016 (audited)
Amount carried forward Net inflow of funds (net outflow in previous year) from operating activities		**15,224**	**3,699**
Cash flow from investment activities			
Payments for property, plant and equipment and non-current assets		(8,159)	(5,214)
Proceeds from disposals of fixed assets		7	13
Investment subsidies used	3.12.	—	—
Incoming payments as part of the company acquisition		2,566	—
Disbursement as part of a company acquisition		(4,448)	(81)
Interest payments received	5.	65	58
Disbursed loans		—	—
Proceeds from the repayment of loans		691	125
Net cash outflow for investment activities		**(9,278)**	**(5,099)**
Cash flow from financing activities			
Taking out equity		383	19
Taking out loans		7,920	19
Repayment of loans		(3,510)	(2,138)
Issue of convertible bond		14,328	—
Net inflow (previous year: net outflow) in cash from financing activities		**19,121**	**(2,119)**
Net outflow of cash and cash equivalents		**25,067**	**(3,519)**
Cash and cash equivalents at the beginning of the financial year	3.8.	2,812	6,360
Cash and cash equivalents at the end of the financial year	3.8.	27,944	2,812
Impact of changes in exchange rates on cash and cash equivalents		65	(29)
Limited available funds	3.8.	928	1,055

Summary of outflow of cash and cash equivalents

T.14

EUR K	Notes No.	2017 (audited)	2016 (audited)
Liquid assets		30,479	6,017
Utilisation of current account credit/ credit card/ exchange rate	2.6.	(2,535)	(3,205)
Cash and cash equivalents at the end of the financial year		**27,944**	**2,812**

Notes on the Consolidated Accounts

for the 2017 financial year

1. Principles of Reporting

1.1. General information

GK Software SE 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 SE is entered in the Commercial Register at Chemnitz Local Court under reference number HRB 31501 (HRB 19157 until 31 December 2017).

The announced change in the legal form of GK Software from a public limited company (AG) to a European public limited company (SE) was formally completed with the entry into the Commercial Register on 19 January 2018. The annual shareholders' meeting on 22 June 2017 had opted for the change in line with the suggested ruling by the Management Board and the Supervisory Board. Whenever the text refers to GK Software SE from now on, this includes what was formerly GK Software AG in relation to the past financial year.

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 consolidated accounts for GK Software SE on 31 December 2017 were prepared in line with the accounting standards of the International Accounting Standards Board (IASB), the International Financial Reporting Standards (IFRS) and the provisions needing to be applied in line with Section 315e Para. 1 of the German Commercial Code (HGB). The Company's consolidated accounts were also prepared taking into account the Interpretations (IFRIC, SIC) of the International Financial Reporting Standards Interpretations Committee (IFRS IC), as they need to be applied in the European Union.

The following accounting standards and interpretations were obligatory for the first time for the 2017 financial year:

- Amendments to IAS 7 "Statement of Cash Flows - Disclosure Initiative"
- Amendments to IAS 12 "Income Taxes"
- Improvements to IFRSs 2014-2016 "Amendments to IFRS 12"

The amendments to IAS 7 require disclosures about the changes in debts in conjunction with the funding activities, divided according to changes that are cash items and those that do not impact the cash flow. GK Software SE will present these statements accordingly. The amendments to IAS 12 involve entering deferred tax claims for losses that have not been recognised. The amendments to IAS 12 and the improvements to IFRSs 2014-2016 do not have any major effects on the Company's consolidated accounts.

The International Accounting Standards Board (IASB) has also issued the following standards, interpretations and amendments to existing standards, but it is not compulsory to use them or their adoption into European law has not yet been fully completed by the European Union. These standards have not been used in advance and no premature usage is planned in future either:

IFRS standards not used

T.15

IFRS	Amendment	Amendment for the financial year from
IFRS 2	Classification and Assessment of Share-Based Payments	01.01.2018
IFRS 9	Financial Instruments	01.01.2018
IFRS 15[1]	Revenue from Contracts with Customers	01.01.2018
Improvements	Improvements to IFRSs 2014-2016: Amendments to IFRS 1 and IAS 28	01.01.2018
IFRS 16	Leases	01.01.2019

1 – including clarification of IFRS 15

IFRS 15 “Revenue from Contracts with Customers”, which has been published, replaces the previous IFRS provisions on revenue recognition - IAS 18 and IAS 11 - with the goal of merging the large number of rules contained in various standards and interpretations in a unified model for revenue recognition. The basic principle of the standard is that the amount of revenue should be entered as expected for the payments of the counter-performance needing to be entered on the balance sheet. Turnover revenue is recognised when the customer obtains the authority to dispose of the goods or services. IFRS 15 also contains stipulations to present the performance surpluses or obligations existing at contract level, which are the result of the relationship between the work performed by the company and the customer’s payment. The Company will use the standard for the financial year starting on 1 January 2018 for the first time and, if necessary, enter any effects of the change encountered in the relevant reserve (simplified first usage). Any changes regarding the amount and the recognition time of the turnover revenue entered for customer contracts is only expected to be minimal, as the individual component parts of the revenue models at GK Software SE (sale of licences, providing maintenance services, providing implementation services, training, operating shops) are generally assessed independently of each other in terms of the time and amount of the counter-performance according to IAS 18 and according to IFRS 15, even if they are marketed together. As GK Software SE regularly grants its customers licences for an unrestricted period, this is currently a sale and will be in future too, while maintenance services are provided during specific periods of time. GK Software SE provides services, which are accounted for in line with the hours involves, as part of its normal consulting projects. Fixed price projects, which are currently entered on the balance sheet according to the percentage of completion method, will continue to meet the conditions for the recognition of turnover revenue related to time even in line with IFRS 15, according to our current understanding. We are therefore expecting the use of IFRS 15 to have an effect on turnover of up to almost EUR 1 million, but it will only have a small effect on the EBIT figure. GK Software SE also assumes that there will be minor changes to the balance sheet and additional quantitative and qualitative details in the consolidated notes.

IFRS 16 replaces the previous differentiation of operating and financial lease relationships by a unified lessee balancing model, according to which lessees are obliged to report assets (for the usage rights) and corresponding leasing obligations for any leasing contracts with a term of more than twelve months. This creates a situation where leasing relationships, which have not been entered on the balance sheet in the past - in a manner largely comparable to the current accounting of financial leasing relationships - must be entered on the balance sheet. This will probably give rise to accounting for the usage rights on rented office premises and the corresponding liability and, as a result, a balance sheet extension of several millions of euros for GK Software SE. The equity ratio will decline accordingly. GK Software SE is currently assessing the effects on the EBIT figure arising from the fact that amortisation and interest expenditure will become current rental expenditure in future.

IFRS 9 “Financial Instruments” contains revised stipulations on classifying and assessing financial assets, fundamental changes to the provisions for adjusting the value of financial assets as well as revised rules for entering hedging relations on the balance sheet. The effect of this standard on the Company's financial accounts is currently expected to be minimal, as no complex financial instruments are used. The new expected value adjustment model will not have any significant effects in conjunction with assessing accounts receivable.

The other amended standards mentioned here will not have any major effects on the Company's consolidated accounts.

The reporting procedures for the 2017 financial year have taken place in line with the standards and interpretations that must be used and provide a picture of the assets, financial and revenue situation, which matches the actual circumstances.

Assets and debts are also assessed at their amortised purchase and manufacturing costs.

The presentation of the consolidated accounts has taken place on the basis of the historical purchase or manufacturing costs. The consolidated accounts have been presented in euros. If not indicated otherwise, all the amounts are specified in EUR K. Normal commercial practices of rounding figures up or down have been used. As a result, there may be differences caused by rounding.

The financial year for GK Software SE and the subsidiaries included in the consolidated accounts matches the calendar year. The profit and loss statement has been prepared using the total cost method. The balance sheet structure follows the maturity of the assets and debts. Assets and debts are viewed as current, if they are due or are to be sold within one year.

1.3. Consolidated companies

The consolidated accounts include GK Software SE and all the companies where GK Software SE has majority voting rights, either directly or indirectly, or has the opportunity to gain control.

The consolidated companies not only include the parent company, but also 1. Waldstraße GmbH, Schöneck and AWEK GmbH, Barsbüttel, and AWEK microdata GmbH, Barsbüttel, as well as prudsys AG, Chemnitz, 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., 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 SE 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. With effect from 1 January 2015, GK Software SE 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. 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 SE consolidated accounts on the date that it was set up by way of full consolidation for the first time.

GK Software USA Inc., Cape Coral/USA, was set up on 30 January 2015 and it was included in the GK Software SE 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 SE consolidated accounts by way of full consolidation for the first time on the date that it was set up.

Prudsys SE, Chemnitz, was taken over in the form of an 80.12 percent holding in the company on 1 November 2017 and was included in the GK Software SE consolidated accounts by way of full consolidation for the first time.

All the companies in the consolidated group are either directly or indirectly owned by GK Software SE.

GK Software SE also has a 50 percent holding in Unified Experience UG (limited liability), Lindlar. GK Software SE does not exercise any control here. The company has not therefore not been included in the consolidated accounts as an associated firm for reasons of materiality. Fuel Retail GmbH, which was also founded in 2017, was not included in the consolidation process because it has not started operating as a business.

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 consolidated accounts include 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 SE 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 consolidated 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. BalanceSheetandAssessmentPrinciples

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 Group's leasing and rental circumstances cover different assets like buildings, rented premises, computer equipment and vehicles. The leasing agreements are normally concluded for a period of between three and five years. The circumstances for the individual agreements are concluded on an individual basis with different conditions. The agreements do not normally contain any individual contractual conditions governing particular financial performance indicators. The leasing agreements are not used as security in conjunction with taking out liquid funds. The costs incurred in conjunction with the ongoing leasing contracts have been entered to affect earnings in line with the relevant contractual term.

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 in relation to individual items in the financial statements.

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 are depreciated 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. The purchase and production costs as well as the cumulated depreciation is removed from the accounts in the case of asset disposals and the results from the asset disposals (disposal revenues minus the remaining carrying amount) are entered on the profit and loss statement under “Other revenues” or “Other 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. 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.

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.

A further customer base was created through the acquisition of prudsys AG amounting to EUR 1.642 K and this will also be amortised in a linear fashion over a period of 15 years.

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 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.

Technology

The acquisition of prudsys AG also involved the purchase of technology, which primarily consists of the in-house developed software, the Real-time Decisioning Engine at prudsys (prudsys RDE). Industrial property rights and similar rights and values are assigned to the stocks and are subject to impairment related to the period of use.

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.

By acquiring the holding of 80.12 percent in prudsys AG amounting on 1 November 2017, goodwill amounting to EUR 122 K resulted through the relevant attribution of the purchase price for the assets acquired.

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.

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. 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.

2.2.5. 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. Stocks

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, which are based on the mark-to-market method, 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 trade accounts receivable, where it is assumed that they cannot be collected, are written off according to the direct method. The other trade accounts receivable are checked periodically for objective signs of whether any need to write them down has already occurred. Typical signs of the potential to write down a particular trade account receivable are, e.g. well-known and significant financial troubles for the customer or overdue payments for receivables going beyond 30 days. Outstanding accounts receivable, for which a value adjustment was already performed in the past, are removed from the accounts, if necessary, taking into consideration the value adjustment already performed.

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 instruments 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 programme

GK Software has continually developed 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 SE 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 exercise conditions, which are identical for employees entitled to them and which consist of a working relationship that has not been terminated, a holding period and the exceeding of target prices that are defined in each case.

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). The remaining operations were forfeited during the 2017 financial year.

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. A further 300 options of the remaining 13,500 options were forfeited during the 2017 financial year. The remaining 13,200 options were exercised during the 2017 financial year.

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, in which GK Software SE 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. 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, of which 3,000 were forfeited and 7,675 were exercised. 14,000 options were exercised in all here.

3,500 options and a further 21,825 share options were offered to members of the Company during the 2014 financial year. 5,500 of these options were forfeited by the end of the financial year. The remaining 19,825 options are still outstanding.

A further 8,500 share options were offered to members of the Company during the 2017 financial year and they are all outstanding.

The decision taken at the annual shareholders' meeting on 29 June 2015 empowered the Management Board to issue up to 75,000 share options (contingent capital III) with subscription rights to GK Software SE 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 SE 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 SE Management Board, selected managers and other senior employees at GK Software SE 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 SE in the sense of Sections 15 and 17 of the German Companies Act.

30,675 share options were offered to employees of the Company and associated firms during the 2015 financial year. Of these, a total of 4,075 options were forfeited during the 2017 financial year.

31,900 share options were offered to employees of the Company and associated firms during the 2016 financial year. 450 of these options had been forfeited by the end of the 2017 financial year.

A further 16,500 share options were offered to members of the Company during the 2017 financial year and they are all outstanding.

The options exercised during the reporting period involved an average share price of EUR 114.89.

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

T.16

	Number of options
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
Options outstanding on 1 January 2017	129,575
Options granted during the course of the 2017 financial year	25,000
Options lost during the reporting period	(16,875)
Options redeemed during the reporting period	(34,875)
Options expiring during the reporting period	0
Options outstanding on 31 December 2017	102,825
Exercisable options on 31 December 2017	0

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

Options granted and exercise obstacles

T.17

Issue date	Issue options	of which forfeited	of which lapsed	of which redeemed	Options remaining	Exercise price	Exercise period	End of exercise period
	Number	Number	Number		Number	EUR	Years	
10.05.2013 [1]	15,250	1,750	300	13,200	0	29.03	4 1/4	10.05.2017
Contingency capital I					**0**			
27.08.2013	10,675	0	3,000	7,675	0	25.42	4 1/4	27.08.2017
11.11.2013	14,000	0	0	14,000	0	25.02	4 1/4	11.11.2017
28.08.2014	3,500	1,500	0	0	2,000	41.78	4 1/4	28.08.2018
01.12.2014	21,825	4,000	0	0	17,825	37.77	4 1/4	01.12.2018
20.06.2017	8,500	0	0	0	8,500	92.10	4 1/4	21.06.2021
Contingency capital II					**28,325**			
01.11.2015 [1]	5,000	2,500	0	0	2,500	28.62	4 1/4	01.11.2019
30.11.2015 [1]	25,625	1,575	0	0	24,050	33.98	4 1/4	30.11.2019
29.08.2016	31,900	450	0	0	31,450	45.98	4 1/4	29.08.2020
04.12.2017	16,500	0	0	0	16,500	116.69	4 1/4	03.12.2021
Contingency capital III					**74,500**			
20.06.2017	250,000	0	0	0	250,000	155.00		19.10.2022
Contingency capital IV					**250,000**			
Total ammount					**352,825**			

1 - Change to previous year's figures

Currency rates, interest rates and volatility

T.18

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	%	%	Number	EUR
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
20.06.2017	4 1/2	93.00	4	(0.52)	31.97	—	194,939.00
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
04.12.2017	4 1/2	116.30	4	(0.47)	32.01	10,000	468,105.00

1 - Change compared to previous year's figures

Distribution of expenditure entered

T.19

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
10.05.2013	6.231	0	0.50	8,391.00	—
27.08.2013	6.167	0	0.50	10,217.77	—
11.11.2013	6.240	0	0.50	14,655.33	14,390.91
28.08.2014	9.179	8	0.50	3,547.57	—
01.12.2014	6.420	12	0.50	35,980.58	11,036.06
20.06.2017	22.934	42	0.50	26,024.00	—
01.11.2015	6.533	22	0.50	5,099.96	—
30.11.2015	8.302	23	0.50	62,100.67	10,083.93
29.08.2016	9.202	32	0.50	71,528.98	20,456.32
04.12.2017	28.370	47	0.50	8,988.00	5,447.27
Total ammount				**246,533.86**	**55,967.22**

The process of determining the fair values per option took place on the basis of 10,000,000 simulations using the Monte Carlo procedure. 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. The exercise price, the exercise hurdle and the exercise period were taken into consideration in the underlying observation.

The volatility was calculated according to IFRS 2 B25(b) in line with an estimated average term of the option rights of 4 ¼ years based on the company's historical share price during the last four years on the relevant granting date.

Overall, personnel expenditure of EUR 246,533.86 was entered for the share options that were issued during the financial year. The average weighted terms for the options amounted to 2½ 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.

With the agreement of the Supervisory Board, the Management Board of GK Software SE decided on 18 October 2017 to issue a secondary, unsecured convertible bond with a total nominal value of up to EUR 15,000,000 and with a term that runs until 26 October 2022.

The convertible bonds have a term of 5 years and was issued at 100 percent of its nominal value of EUR 1,000,000 per convertible bond and, if they were not converted or repurchased and retracted in advance, will be repaid at the nominal amount according to the bond conditions when they are finally due.

The bonds accrue interest of 3 p.a. on the nominal amount from 26 October 2017 onwards. The interest must be paid annually in arrears on the relevant interest payment date.

The convertible bonds have been exclusively offered to institutional investors outside the United States of America, Canada, Australia, South Africa and Japan and other countries where the offer or sale of securities is subject to statutory restrictions. The minimum subscription volume per investor was EUR 100,000.00.

2.9.1. Financialliabilitiesassessedonthebalancesheetat 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 completion of the software service needing to be provided and - prior to the first measurement date or between two measurement dates - according to the actual expenditure already incurred and the planned work to complete the overall service until the next measurement date. The amount of contract revenues is determined from the agreed job 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 by the reporting date as a share of the job total prior to the next measurement date.

2.13.3. Revenues from maintenance work:

Revenues from maintenance 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. Estimationuncertaintiesandassessmentdecisions

In preparing the annual statements, assumptions have to be made to a certain degree and estimations 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 estimations 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 estimations 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 estimations. 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 estimations, 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 estimation uncertainties

The following indicates the most important assumptions made about the future and the other major sources of estimation 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 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 6,403K euros as goodwill for the very first time. Following scheduled amortisation in 2014 amounting to EUR 870 K, this asset was entered in the consolidated accounts with a value of EUR 5,533 K on 31 December 2017. The value of this figure was checked on 31 December 2017. 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 estimation 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 2017. 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 estimation 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.

Through the partial acquisition of the operational business of DBS Data Business Systems Inc. by GK Software USA Inc., the Group entered an intangible asset amounting to EUR 9,838 K (31 December 2017: EUR 8,980 K) as goodwill. The intrinsic value of this figure was checked on 31 December 2017. 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 estimation of future cash flows from the cash-generating unit and a suitable discount rate for the cash value calculation.

By acquiring the holding in prudsys AG amounting to 80.12 percent on 1 November 2017, goodwill amounting to EUR 122 K resulted through the relevant attribution of the purchase price for the assets acquired.

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 using a cash value factor over the expected period of use of nine years and was entered in the consolidated accounts with a value of EUR 0 K (previous year: EUR 19 K) on the balance sheet reporting date.

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 225 K on the balance sheet reporting date (previous year: EUR 271 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 2017: EUR 4.989 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 3.536 K on the balance sheet reporting date (previous year: EUR 4.578 K). There was no information indicating the need to make a value adjustment beyond this.

As a result of the acquisition of 80.12 percent of the shares in prudsys AG on 1 November 2017, the Group entered an intangible asset in the form of the acquired customer base amounting to EUR

1,642,451. The customer base is amortised on schedule in a linear fashion over a period of 15 years from the time of the acquisition.

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 goodwill

The fair value of the RDE software acquired through the acquisition of the majority holding in prudsys AG at the time of the purchase amounted to EUR 2,437,037. The amount is amortised in linear fashion over a period of 10 years from the time of the acquisition.

Intrinsic value of accounts receivable from ongoing work

The intrinsic value of the accounts receivable from ongoing work amounting to EUR 5.129 K (EUR 3,480 K in the previous year) and entered on the balance sheet in line with IAS 11 in conjunction with IAS 18.20 was 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.

Estimation and assessment of deferred tax assets

The estimation and assessment of deferred taxes assets from any losses carried forward assumes 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.

Estimation 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 2016

T.20

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

Property, plant and equipment in 2017

T.21

EUR	Real estate and buildings	Operating and business equipment	Initial payments made and facilities under construction	Technical equipment and machines	Total
Purchasing or production costs					
Figures on 1 January 2017	4,772,363.90	8,260,917.41	3,198,050.12	**0.00**	**16,231,331.43**
Accruals	3,964,162.29	3,076,428.83	79,683.78	**0.00**	**7,120,274.90**
Accruals through corporate mergers	0.00	67,320.00	0.00	**6,849.93**	**74,169.93**
Disposals	0.00	122,357.80	4,874.00	**0.00**	**127,231.80**
Figures on 31 December 2017	**8,736,526.19**	**11,282,308.44**	**3,272,859.90**	**6,849.93**	**23,298,544.46**
Accumulated depreciation					
Figures on 1 January	1,410,002.42	5,919,417.35	0.00	**0.00**	**7,329,419.77**
Accruals	196,295.47	1,706,097.72	0.00	**0.00**	**1,902,393.19**
Accruals through corporate mergers	0.00	0.00	0.00	**0.00**	**0.00**
Disposals	0.00	116,605.01	0.00	**0.00**	**116,605.01**
Figures on 31 December 2017	**1,606,297.89**	**7,508,910.06**	**0.00**	**0.00**	**9,115,207.95**
Carrying amounts on 31 December 2017	**7,130,228.30**	**3,773,398.38**	**3,272,859.90**	**6,849.93**	**14,183,336.51**

Procurement obligations for office and business equipment amounted to approx. EUR 1.255 K). (previous year: EUR 390 K). Some of the plots of land serve as security for liabilities through real property liens; for more details, we refer you to paragraph 3.11.

3.2. Intangible assets

Intangible assets in 2016

T.22

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**

Intangible assets in 2017

T.23

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 2017	7,988,400.46	4,776,876.67	16,781,675.32	6,750,684.80	1,584,511.46	**37,882,148.71**
Accruals	0.00	807,338.38	0.00	0.00	0.00	**807,338.38**
Accruals through corporate mergers	0.00	2,756,033.92	122,161.92	1,642,451.52	0.00	4,520,647.36
Changes caused by exchange rates	0.00	(165,058.89)	(1,227,015.92)	(526,631.04)	0.00	**(1,918,705.85)**
Figures on 31 December 2017	**7,988,400.46**	**8,175,190.08**	**15,676,821.32**	**7,866,505.28**	**1,584,511.46**	**41,291,428.60**
Accumulated depreciation						
Figures on 1 January 2017	7,079,255.09	2,709,862.75	870,000.00	1,882,799.22	1,512,364.29	**14,054,281.35**
Accruals	358,734.05	734,564.63	0.00	580,219.13	72,147.17	**1,745,664.98**
Accruals through corporate mergers	0.00	93,165.18	0.00	39,105.99	0.00	**132,271.17**
Figures on 31 December 2017	7,437,989.14	3,537,592.56	870,000.00	**2,502,124.34**	1,584,511.46	**15,932,217.50**
Carrying amounts on 31 December 2017	550,411.32	4,637,597.52	14,806,821.32	5,364,380.94	0.00	**25,359,211.10**

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.

Research costs of EUR 624 K (2016 financial year: EUR 38 K) were entered immediately as expenditure during the 2017 financial year.

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)
- Prudsys RDE (GK/Retail segment)

The goodwill was allocated as follows:

Goodwill at GK Software

T.24

EUR K	31.12.2017	31.12.2016
StoreWeaver Enterprise Edition	5,533	5,533
IT Services	244	244
TransAction+ Products and Services	8,908	10,135
Prudsys RDE	122	—
Total	**14,807**	**15,912**

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 principles of Group planning (DCF method). 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 2022. 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 growth rate of 2 percent was assumed here.

The flows of payments determined in this way were discounted with an interest rate of 7.58 percent (8.18 percent in the 2016 financial year) and this specified 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 pre-tax interest rate determined iteratively amounted to 9.79 percent.

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.

We varied the discount rate 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. An increase in the interest rate of 1 percent would create a situation where, other things being equal, a value adjustment in the goodwill would have to take place. A decline in turnover of 25 percent would not require any value adjustment.

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 2022. 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 7.58 percent (8.18 percent in the 2016 financial year) and this specified the weighted costs of the capital before income taxes (9.79 percent before 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 2017:

(31 December 2017: EUR 8.908 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 2017. Checks on the intrinsic value of the unit generating the cash and cash equivalents took place on 31 December 2017, according to IAS 36.90.

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 2023. 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 growth rate of 2 percent was assumed here.

The flows of payments determined in this way were discounted with an interest rate of 9.1 percent (8.18 percent in the 2016 financial year) and this specified the weighted costs of the capital before income taxes (11.38 percent before 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 if the capitalisation interest rate is increased by two 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.

prudsys RDE unit
The debts acquired exceeded the identified assets by EUR 122 K in association with the acquisition of prudsys, so that goodwill amounting to this sum was entered on the balance sheet as a result of this transaction on 31 December 2017. 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 2017.

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 2022. As use is possible and probable beyond this time, the following period was also taken into account. An even growth rate of 2 percent was assumed here.

The flows of payments determined in this way were discounted with an interest rate of 7.58 percent and this specified the weighted costs of the capital before income taxes (10 percent before 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 of plus two points or a decline in turnover of 5 percent. 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.

3.3. Stocks

Stocks

T.25

EUR	31.12.2017	31.12.2016
Goods	798,167.37	955,799.48
Auxiliary materials and supplies	192,190.38	224,437.31
Advance payments on inventories	53,734.64	44,202.34
Total	**1,044,092.39**	**1,224,439.13**

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 208 K in total (previous year: EUR 313 K). The value adjustments were entered under “Other expenditure”. Revenue from the reversal of value adjustments in previous years was entered under “Other operating revenues” and amounted to EUR 327 K (previous year: EUR 12 K). Value adjustments amounting to a total of EUR 318 K were formed on the reporting date (previous year: EUR 437 K).

There were foreign currency trade receivables on the balance sheet reporting date amounting to EUR 16 K in Czech crowns (previous year: EUR 4 K), in American dollars amounting to EUR 2,851 K (previous year: EUR 1.439 K), in South African rand amounting to EUR 1.006 K (previous year: EUR 875 K) and in Ukrainian hryvnia amounting to EUR 1 K (previous year: EUR 0 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 5,129 (previous year: EUR 3,480 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 1 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.26

EUR	31.12.2017	31.12.2016
Income tax claims	450,120.57	281,750.19
Intermediate total	450,120.57	281,750.19
Loans paid to third parties	2,236,547.06	2,727,761.33
Accounts receivable from members of the Management Board	32,802.08	42,683.40
Accounts from value-added tax	838,595.19	321,234.90
Accounts from asset deferrals	1,703,128.89	1,472,273.99
Accounts from interest/currency hedging business	895,288.03	0.00
Others	1,355,451.40	642,602.19
Intermediate total	7,061,812.65	5,206,555.81
Total	**7,511,933.22**	**5,488,306.00**

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 156 K (previous year: EUR 120 K), in Swiss francs amounting to EUR 4 K (previous year: EUR 4 K), in Russian roubles amounting to EUR 15 K (previous year: EUR 8 K), in US dollars amounting to EUR 749 K (previous year: EUR 113 K), in South African rand amounting to EUR 45 K (previous year: EUR 4 K) and Ukrainian hryvnia amounting to EUR 2 K (previous year: EUR 10 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 11K (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 917 K) was put aside as security for retention bonuses for employees.

3.9. Equity

We refer you to the statement of changes in the Group's equity for more information on changes to the equity at GK Software on the 2017 balance sheet reporting date.

The Company's nominal capital amounted to EUR 1,903,200.00 on 31 December 2017 and was divided into 1,903,200 par value, individual share certificates each worth EUR 1. All the shares issued had been fully paid for by the reporting date. The changes resulted from the exercising of the share option programme.

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

Authorised capital The annual shareholders' meeting on 28 August 2014 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.

Contingent capital. According to Section 4a (1) and (2) of the articles of association, the Management Board was entitled to grant subscription rights 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 as part of the share option programme 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 contingent 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 once employees reach the age of 65 or 68 or 67. As this involves fixed pension sums, no adjustments are made in line with the final salary paid or the preceding salaries or the length of services or revenues in the fund. No fixed pension adjustment has been agreed. 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.

Risks arising from longevity. 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'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.27 Assumptions for calculating cash values

	FY 2017	FY 2016
Pensionable age (m/f)	60-65/60-65	60-65/60-65
Discount factor(s) on 1 January	1.40% p.a.	2.20% p.a.
Discount factor(s) on 31 December	1.95% p.a.	1.40% p.a.
Rate of pension increase	1.50% p.a.	1.50% p.a.

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:

T.28 Reconciliation account to determine the cash value

EUR	FY 2017	FY 2016
Figures on 1 January:	3,698,153	3,232,027
+ Interest expenditure	50,921	69,782
+ Working period costs	95,437	79,054
+ Working period costs to be additionally calculated	305,157	—
− Benefits paid out	(92,961)	(112,289)
+ Actuarial profits (losses in the previous year)	(534,004)	429,579
of which adjustments based on experience	(216,103)	18,472
of which changes in financial assumptions	(317,901)	411,107
Figures on 31 December	**3,522,703**	**3,698,153**

The past service costs needing to be subject to supplementary crediting resulted from new promises given to Mr Rainer Gläss and Stephan Kronmüller during 2017.

The development of the plan assets is shown as follows:

Development of the plan assets

T.29

EUR	FY 2017	FY 2016
Figures on 1 January	1,931,179	1,772,097
+ Expected yields from plan assets	24,246	40,039
+ Contributions	189,548	189,548
− Benefits paid out	(55,276)	(93,852)
− Actuarial losses (-)/ profits	(446,603)	23,347
Figures on 31 December	**1,643,094**	**1,931,179**

This therefore gave rise to a plan deficit of EUR 1,879,609 (previous year: EUR 1,766,974) , 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.30

EUR	2017	2016
Current service costs	95,437	79,054
Net interest expenditure	26,675	29,743
Components of the defined benefit costs entered in the profit and loss statement	122,112	108,797
Reassessment of net debt from the defined benefit plan		
Losses from plan assets (with the exception of the amounts contained in the net interest)	(446,603)	(16,221)
Actuarial gains and losses from the change in financial assumptions	534,004	429,579
of which adjustments based on experience	216,103	18,472
of which changes in financial assumptions	317,901	411,107
Components in the defined benefit costs entered under “Other income”	87,401	413,358
Total	**209,513**	**522,155**

In terms of the ongoing annual expenditure amounting to EUR 122 K (previous year: EUR 109 K), interest revenues amounting to EUR 24 K (previous year: EUR 40 K) and interest expenditure amounting to EUR 51 K (previous year: EUR 70 K) were entered under “Interest results” and the remaining expenditure amounting to EUR 95 K (previous year: EUR 79 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.31

EUR	Cash value of the defined benefit obligation	Fair value of the plan assets	Shortfall (−) surplus (+)
FY 2017	**3,522,703**	**1,643,094**	**(1,879,609)**
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)

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

Development of the plan debts and plan assets

T.32

EUR	Liabilities in the plan	Assets in the plan
FY 2017	**(198,977)**	**263**
FY 2016	272,809	(11,878)
FY 2015	(65,298)	(5,408)
FY 2014	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)

1 - Change compared 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 2018. During the financial year, the actual losses from the planned assets amounted to EUR 422,357, following a profit figure of EUR 63,386 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%, the defined benefit obligation will be reduced by EUR 358 K (increased by EUR 455 K) (2016: reduced by EUR 503 K (increased by EUR 630 K)).

- If the pension trend increases (falls) by 1%, the defined benefit obligation will be increased by EUR 289 K (reduced by EUR 242 K) (2016: increased by EUR 440 K (reduced by EUR 376 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.33

EUR	Value	Value p.y.
Fiscal year 1	91,844.00	112,691.00
Fiscal year 2	93,642.00	113,192.00
Fiscal year 3	96,497.00	114,206.00
Fiscal year 4	99,835.00	116,064.00
Fiscal year 5	103,508.00	118,191.00
Fiscal year 6-10	1,032,688.00	861,551.00

On the reporting date, the weighted average term (duration) of the defined benefit payment obligation was 19, 21 years (20.02 in the previous year) or 32.52 years (33.92) at GK Software or 5.41 years (previous year: 5.95) at AWEK GmbH and 9.27 years (previous year: 9.51) 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. Of the two other loans, the one amounting to EUR 750 K was completely repaid and the second one was valued at a total of EUR 214 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 219 K in total on 31 December 2017. 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 2,036 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 6,500 K on the reporting date. The repayment for the following year amounts to EUR 2,000 K. Another loan was taken out with the Sparkasse Vogtland bank in 2017 amounting to EUR 2,750 K, which was valued at EUR 2,610 K on the reporting date.

This included securing liabilities amounting to EUR 2.797 K through a mortgage on 31 December 2017. These loans, which were valued at EUR 2.797 K (previous year: EUR 604 K) on the reporting date, are due for repayment in the following year with a total sum of EUR 281 K (previous year: EUR 172 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 152 K (previous year: EUR 94 K) and a current account credit line that was used amounting to EUR 2,405 K (previous year: EUR 3.086 K).

3.12. Convertible bond

The parent company issued convertible bonds worth EUR 15 million on 26 October 2017. The convertible bonds must be converted into ordinary shares for the parent company or paid for on 26 October 2022, according to the holder's choice. The initial fair value of the outside capital share of the bond was determined with a market interest rate for a bond of the same value without any conversion option on the issue date. The liability is then entered on the basis of the depreciated purchase costs until it has lapsed by the conversion or the due date of the convertible bond. The remaining revenues are assigned to the conversion option and entered under "Equity" and then not reassessed at a later date.

3.13. 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.

3.14. Deferred taxes

Please refer to Section 4.11.

3.15. Provisions

T.34 Provisions

EUR	Personnel department	Production department	Other departments	Total
Situation on 1 January 2017	203,310.00	1,111,627.65	181,720.13	**1,455,457.83**
Amounts used	193,219.60	510,947.79	146,510.13	**850,677.52**
Liquidation	10,090.40	0.00	470.00	**10,560.40**
Additional funds	246,040.00	319,638.49	145,337.55	**711,016.04**
Figures on 31 December 2017	**246,040.00**	**920,318.35**	**180,077.55**	**1,346,435.90**

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 373 K was used from provisions additionally formed in previous years for projects.

3.16. Trade accounts payable

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 47 K in Czech crowns (previous year: EUR 32 K), in Ukrainian hryvnia amounting to EUR 1 K (previous year: EUR 1 K), in American dollars amounting to EUR 167 K (previous year: EUR 149 K) and in South African rand amounting to EUR 5 K (previous year: EUR 3 K).

3.17. Initial payments received

As in the previous year, the initial payments received have a term of up to one year. Advance payments received amounted to USD 224 K on the balance sheet reporting date.

3.18. Income tax liabilities

This item contains liabilities arising from corporate tax, the solidarity surcharge and business tax in Germany amounting to EUR 457 K (previous year: EUR 181 K), amounting to EUR 0 K in the Czech Republic (previous year: EUR 0 K), amounting to EUR 25 K in Switzerland (previous year: EUR 25 K), amounting to EUR 0 K in Russia (previous year: EUR 1 K), amounting to EUR 0 K in the USA (previous year: EUR 178 K), amounting to EUR 0 K in South Africa (previous year: EUR 0 K) and amounting to EUR 6 K in Ukraine (previous year: EUR 7 K).

T.35 Other current liabilities Other current liabilities

EUR	31.12.2017	31.12.2016
Tax liabilities	1,294,782.29	1,853,248.77
Liabilities from wages and salaries	9,713,778.83	7,199,921.71
Other liabilities towards members of staff	5,106.93	17,844.06
Liabilities from the acquisition of companies	542,424.75	2,371,691.48
Others	11,881,576.57	3,594,510.37
of which an overpayment by customers	7,048,320.61	0.00
of which from deferrals	2,614,076.08	1,743,959.03
Total	**23,437,669.37**	**15,037,216.39**

The tax liabilities cover outstanding income tax payments and value-added tax. There were other foreign currency liabilities amounting to EUR 661 K (previous year EUR 514 K) in Czech crowns, amounting to EUR 146 K (previous year: EUR 138 K) in Swiss francs, amounting to EUR 1 K (previous year: EUR 1 K) in Ukrainian hryvnia, amounting to EUR 3,368 K (previous year: EUR 5.172 K) in US dollars and amounting to EUR 63 K (previous year: EUR 249 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 of EUR 7,130 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 2,036 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 6,500 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. Sales 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.

Deferred turnover in line with ongoing work and amounting to EUR 6.893 K (EUR 6,885 K in the previous year), which was determined according to IAS 18.20, was entered during the financial year.

Overall, all the customer orders 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 6,357 K were entered on the balance sheet. The expenses incurred after the reporting date amounted to EUR 3,769 K (previous year: EUR 2,517 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 373 K were used and EUR 148 K were newly added for these revenues during the financial year and therefore the figure entered for expected warranties amounted to a total figure of EUR 723 K (previous year: EUR 948 K) on the balance sheet reporting date.

4.2. Other revenues

T.36 Other revenues

EUR	FY 2017	FY 2016
Reversals of other uncertain liabilities and provisions	157,672.35	158,378.49
Vehicle benefits in kind	1,101,882.45	964,704.52
Earnings from reversals of deferred public grants	44,484.88	28,500.42
Reductions in value adjustments	327,202.25	25,672.13
Market value of interest and currency swap	855,796.43	—
revenues from currency differences	926,901.38	571,074.49
adjustments to liabilities from corporate acquisitions	1,479,665.17	—
Others	303,260.06	20,338.57
Total	**5,196,864.97**	**1,768,668.62**

4.3. Materials expenditure

T.37 Materials expenditure

EUR	FY 2017	FY 2016
Cost of auxiliary materials and supplies	2,648,559.26	2,506,664.99
Expenditure on purchased services	5,881,172.97	5,174,028.59
Total	**8,529,732.23**	**7,680,693.58**

4.4. Personnel expenditure

T.38 Personnel expenditure

EUR	FY 2017	FY 2016
Wages and salaries	49,192,929.55	40,810,015.74
Social security contributions	8,615,981.16	6,859,243.71
of which expenditure on retirement benefits	630,585.15	300,690.23
Total	**57,808,910.71**	**47,669,259.45**

On average, 961 people were employed during the 2017 financial year (819 in the previous year). 1,011 people were employed on the reporting date of 31 December 2017 (877 in the previous year).

With 537 staff members (previous year: 485), a large proportion of the Group's employees are employed at GK Software SE. The number of employees at the Czech subsidiary Eurosoftware s.r.o. in Plzen increased to 207 (previous year: 183). There were 106 employees at AWEK in Barsbüttel (previous year: 103) at the end of the year. AWEK microdata GmbH employed 24 people (previous year: 23) on 31 December 2017. 1 person was employed at OOO GK Software RUS on 31 December 2017 (2 in the previous year). 51 people were employed at GK Software USA Inc. on the reporting date (previous year: 41). GK Software Africa Ltd had 16 employees on the reporting date (previous year: 15). TOV Eurosoftware-UA employed 13 people on 31 December 2017 (previous year: 20). 5 people were employed at the Swiss subsidiary StoreWeaver GmbH at the end of the year (previous year: 5). There were 51 people employed at prudsys AG on 31 December 2017.

4.5. 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.

4.6. Other expenditure

This item largely covers legal and consultancy expenses amounting to EUR 2.139 K (previous year: EUR 1,366 K), advertising and travel expenses of EUR 5,670 K (previous year: 4,493 K), costs for premises and operating costs of EUR 2,276 K (previous year: 1,613 K), costs for vehicles of EUR 3,047 K (previous year: 2,843 K), IT costs of EUR 1,868 K (previous year: 1,246 K), as well as administration and sales costs amounting to EUR 1,811 K (previous year: EUR 1,752 K).

4.7. Financial results

T.39 Financial results

EUR	FY 2017	FY 2016
Interest income	132,809.36	146,412.73
Interest expenditure	(786,068.56)	(637,160.67)
Account balance	**(653,259.20)**	**(490,747.94)**

4.8. Income taxes

T.40 Income taxes

EUR	FY 2017	FY 2016
Current tax liabilities	587,838.57	329,969.20
Deferred tax expenditure	(131,994.48)	295,865.97
Account balance	**455,844.09**	**625,835.17**

Deferred taxes were determined according to the individual company tax rates in Germany, which were 29.5 percent, 29.1 percent, 28.4 percent and 31.6 percent as a result of 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 29.7 percent was used to determine the deferred taxes on changes arising from the elimination of Group interim profits. The increase by 4.2 percent largely resulted from the acquisition of prudsys AG and the fall in the tax rate for AWEK Microdata.

The deferred taxes are included in the following balance sheet items:

T.41 Deferred taxes

	31.12.2017		31.12.2016	
EUR	Assets	Liabilities	Assets	Liabilities
Loss carried forward	3,376,756.28	0.00	2,177,522.99	0.00
Intangible assets	282,934.51	2,952,297.13	401,075.29	1,589,534.11
Other fixed assets	77,316.65	4,066.86	95,147.82	1,822.70
Provisions for guarantees	8,886.11	0.00	152,079.52	0.00
Provisions for pensions	616,790.28	365,689.46	579,062.62	0.00
Changes in exchange rates	91,554.95	230,962.69	81,605.79	31,626.54
Accounts receivable from ongoing work	0.00	906,880.14	284,875.96	1,395,245.98
Trade accounts receivable	64,853.93	233,620.60	461,530.00	0.00
Interest and currency swap	169,167.96	157,600.92	21,423.38	25,517.28
Payables/ other provisions in previous year	460,290.31	0.00	379,316.00	119,017.45
Total according to the balance sheet	**5,148,550.98**	**4,851,117.80**	**4,633,639.37**	**3,162,764.06**

Deferred tax claims/liabilities developed as follows:

Deferred tax claims/liabilities

T.42

EUR	Initial balance	Changes related to the income statement	Changes not related to the income statement	Final balance 31.12.2017
Interest and currency swap	(4,093.90)	(140,196.84)	155,857.78	**11,567.04**
Provisions for pensions	579,062.62	(322,948.63)	(5,013.17)	**251,100.82**
Changes in exchange rates	49,979.26	0.00)	(189,387.00)	**(139,407.74)**
Other fixed assets	93,325.12	(20,075.33)	0.00	**73,249.79**
Provisions for guarantees	152,079.52	(143,193.41)	0.00	**8,886.11**
Intangible assets – in-house developed software	(264,834.05)	104,499.22	0.00	**(160,334.83)**
Intangible assets – in-house developed software (development expenses at AWEK)	(84,025.20)	43,839.24	0.00	**(40,185.96)**
Acquired intangible assets as part of the corporate acquisition (acquired technologies)	(144,818.75)	(95,001.50)	0.00	**(239,820.25)**
Acquired intangible assets as part of the corporate acquisition (customer relations)	46,356.45	(1,157,758.35)	0.00	**(1,111,401.90)**
Intangible assets acquired as part of the purchase of the company (orders on hand)	39,041.99	(39,041.99)	0.00	**0.00**
Intangible assets acquired through the Solquest purchase (customer relations)	110,117.79	(7,426.20)	0.00	**102,691.59**
Goodwill	(890,297.05)	(330,014.23)	0.00	**(1,220,311.28)**
Aaccounts receivable from ongoing work	(1,110,370.02)	203,489.88	0.00	**(906,880.14)**
General value adjustments (general value adjustments in previous year)	461,530.00	(630,296.67)	0.00	**(168,766.67)**
Payables (other provisions in previous year)	260,298.55	199,991.76	0.00	**460,290.31**
Loss carried forward (other assets in previous year)	2,177,522.99	1,199,233.29	0.00	**3,376,756.28**
Total	**1,470,875.32**	**(1,134,899.77)**	**(38,542.39)**	**297,433.15**

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

Transfer of tax expenditure

T.43

EUR K	2017	2016
Pre-tax earnings	4,340	3,452
Anticipated average tax expenditure of 27.25% (prev. year: 25.5%)	1,183	880
Tax expenditure according to domestic legislation	588	330
Tax impact on non-deductible company spending	1	51
Tax impact on tax-free income	(6)	(12)
Deferred taxes	(132)	296
Other tax effects	5	(39)
Actual tax expenditure	**456**	**626**
Effective tax ratio	10.5%	18.1%

Income taxes amounting to EUR 20 K (previous year: EUR 16 K) were included under “Other income taxes” in conjunction with expenditure and revenues from the reappraisal of the defined benefit obligation.

4.9. 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 2017 financial year was 1.903200 (previous year: 1,890,000). The consolidated surplus for 2017 amounted to EUR 3,884 K (previous year: EUR (2,826 K)). As a result, earnings per share amounted to EUR 2.05 for 2017 (previous year: EUR 1.50).

The calculation for the diluted earnings per share took into account the number of shares where the share price on average lay above the exercise thresholds during the year.

The Company’s share price for 16,500 options (previous year: 2,000 options) was below the exercise thresholds taken as an annual average. These were not taken into account when calculating the

	31.12.2016			
Initial balance	Changes related to the income statement	Changes not related to the income statement	Final balance	
51,970.02	(26,727.17)	(29,336.75)	**(4,093.90)**	Interest and currency swap
452,494.45	5,434.75	121,133.42	**579,062.62**	Provisions for pensions
10,908.14	0.00	39,071.12	**49,979.26**	Changes in exchange rates
0.00	93,325.12	0.00	**93,325.12**	Other fixed assets
4,285.69	147,793.83	0.00	**152,079.52**	Provisions for guarantees
(302,535.66)	37,701.61	0.00	**(264,834.05)**	Intangible assets – in-house developed software
(127,864.43)	43,839.23	0.00	**(84,025.20)**	Intangible assets – in-house developed software (development expenses at AWEK)
104,414.72	(249,233.47)	0.00	**(144,818.75)**	Acquired intangible assets as part of the corporate acquisition (acquired technologies)
(93,379.63)	139,736.08	0.00	**46,356.45**	Acquired intangible assets as part of the corporate acquisition (customer relations)
(44,463.97)	83,505.96	0.00	**39,041.99**	Intangible assets acquired as part of the purchase of the company (orders on hand)
137,238.11	(27,120.32)	0.00	**110,117.79**	Intangible assets acquired through the Solquest purchase (customer relations)
(442,189.47)	(448,107.58)	0.00	**(890,297.05)**	Goodwill
(762,468.87)	(347,901.15)	0.00	**(1,110,370.02)**	Aaccounts receivable from ongoing work
56,096.39	405,433.61	0.00	**461,530.00**	General value adjustments (general value adjustments in previous year)
32,145.68	228,152.87	0.00	**260,298.55**	Payables (other provisions in previous year)
2,559,222.29	(381,699.30)	0.00	**2,177,522.99**	Loss carried forward (other assets in previous year)
1,635,873.46	**(295,865.93)**	**130,867.79**	**1,470,875.32**	**Total**

diluted, weighted average price for the ordinary shares on 31 December 2017.

The Company's share price for 86,325 options (previous year: 127,575 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 2017. The diluted earnings per share amounted to EUR 2.00 (previous year: EUR 1.44).

4.10. Currency conversions

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

T.44 Currency conversions

EUR	2017	2016
Other expenses	1,250,459.34	97,317.83
Other income	(926,901.38)	(571,074.49)
Balance	**323,557.96**	**(473,756.66)**

4.11. Deferred taxes

Allocations to the other reserves according to IAS 21 and IAS 19 also covers the deferred taxes, which were calculated with a figure of 29.13%.

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. We would refer you to the explanations under “Other liabilities” regarding the significant increase in the operating cash flow. The balance of financial liabilities amounted to EUR 14,763 K on 1 January 2017 and this increased to EUR 32,323 K because of taking out loans of EUR 7,920 K, repaying loans of EUR 3,510 K, issuing a convertible bond of EUR 13,149 K (taking into account transaction costs and deferred interest expenditure).

6. Corporate mergers

Acquisition and taking control prudsys AG is a company governed by German law and is entered in the Commercial Register at Chemnitz Local Court under reference number HRB 20264. The company’s share capital amounted to EUR 173,487 and was subdivided into 173,487 shares made out to the holder. This equity was attributed to 13 shareholders. The shareholders are only able to dispose of the shares if the remaining shareholders provide their agreement for this.

The transaction was conceived on the basis of a “locked-box mechanism” (the prudsys AG annual accounts at 31 December 2016 formed the basis for this) as the acquisition of shares from the previous shareholders in the sense of a share deal.

GK Software SE made an offer to the previous shareholders of prudsys AG on 16 August 2017 to acquire their shares. The offer envisaged purchasing as many of the prudsys AG shares as possible for a price of EUR 32 each in cash. The offer was subject to general approval from corporate bodies and that the due diligence provided evidence of a positive course of business and it was assumed that the offer would be accepted for at least 130,133 prudsys AG shares. The volume of the transaction would have been EUR 5,551,584 if all the shareholders had approved the deal.

Declarations of acceptance for 139,000 shares in all had been received by 15 September 2017 (corresponding to a purchase price of EUR 4,448,000) and this related to a share of 80.12 percent of the share capital. The extraordinary meeting of prudsys AG shareholders decided on 25 September 2017 to allow the previous shareholders, who had accepted the offer, to sell their shares to GK Software SE. GK Software SE published a mandatory announcement of the takeover plans on 25 September 2017.

A final assessment with the advisory solicitors took place as part of the due diligence on 26 September 2017. One questionable state of affairs was referred for renewed assessment and the due diligence was completed on 4 October 2017. No relevant statements were documented. The Supervisory Board at GK Software SE was informed about the results of the due diligence and the fact that other conditions precedent in the purchase agreement had come into effect and agreed to the implementation of the offer.

The disbursement of the purchase prices from the business shares purchase agreements started on 17 October 2017. Once the confirmation of the incoming payments from the vendors had been received, GK Software SE applied for the change to the share register for prudsys AG.

Prudsys AG informed GK Software SE on 1 November 2017 that the shares acquired by GK Software SE had been entered in the name of the latter in the share register for prudsys AG. As a result, GK Software SE was able to assert its rights from the shares and take over control of prudsys AG on 1 November 2017 (time of purchase).

Background to the acquisition, products and about prudsys In addition to integrating the solution provided by prudsys, GK Software is expecting a flow of expertise for the ongoing automation process in the retail sector from the takeover. For the trend that involves more and more decisions to be prepared or made on the basis of self-learning systems is irreversible. Intelligent corporate software will therefore be increasingly strongly based on AI and machine learning. This will mean that processes in the retail sector will change in many areas - from planning ranges of items to dynamic pricing and even topics like the automated optimisation of the use of personnel.

prudsys AG, which has primarily focused on the e-commerce sector in the past, offers a market-leading solution for the three following fields of use: recommendations, marketing automation and dynamic pricing. The basis for implementing these topics is the in-house development Realtime Decisioning Engine (prudsys RDE), which encompasses artificial intelligence and is based on a large number of innovative, mathematical processes, like reinforcement learning or real-time scoring. The algorithms and methods used by prudsys AG can be used to meet the most varied requirements in the retail trade in a flexible manner. The USPs offered by prudsys AG include a self-learning real-time solution, which analyses customer behaviour every second and directly responds to any changes. In line with the product strategy at GK Software, the prudsys solution is cloud-based, internationalised and is available as software-as-a-service (SaaS).

Personalisation has long since no longer been a purely e-commerce topic as part of omni-channel concepts. For consumers expect individualised offers at each touch point, which are precisely tailored to their needs - whether at the web shop, on their mobile device or at the point of sale. By integrating the prudsys solution, GK Software is closing this circle and offering consistent personalisation and end-to-end interaction with consumers on all channels. One example of this is the integration of the prudsys RDE as an app in GK Software's POS solution, as demonstrated at recent trade fairs. As a result, it is possible to offer consistent recommendations to consumers in real time and on all channels - from the web shop to smartphones and advisory tablets and even at checkouts. Individualised coupons, which are sent directly to customers' smartphones via the Mobile Customer Assistant solution from GK, are another scenario illustrating its use.

The prudsys services are grouped around the prudsys RDE, with which retailers can handle innovative real-time scenarios that are fully tailored to the needs of the retail sector. The software and its modular approach offer three major building blocks: 1. The self-learning Recommendation Engine enables a personalised customer approach via all the sales channels. However, it is not only able to issue individual product recommendations, but also any kind of personalised information - ranging from banners to editorial content and even photos and videos. 2. The Marketing Automation building block is used, among other things, to prepare forecasts of customers' individual shopping behaviour by including current behaviour information and master data. As a result, answers to questions about which marketing tool fits a particular customer or who will probably respond to a particular offer are available. The practical applications include playing out individual incentives at an online shop to prevent cancellations of shopping baskets or the automated selection of the suitable target group for a planned campaign. 3. The Dynamic Pricing tool envisages the best possible price finding operations for millions of products in real time. The prices are adapted to the customer's behaviour fully automatically and the constantly changing situations in the market place and company. Prices are calculated both for stores and web shops based on the forecast price acceptance by consumers, although competitive prices are included here as an important factor.

prudsys AG is a leading provider of omni-channel personalisation in the retail sector. The prudsys RDE enables companies to maximise the value of customers in real time along every channel. The company, which was founded in 1998, is a pioneer in the field of real-time personalisation and has been actively shaping the development of online shopping right from the start. prudsys enables customers to enjoy a unique shopping experience at more than 200 online shops around the globe by closely dovetailing recommendations, marketing automation and dynamic pricing. prudsys AG is the holder of several patents and has been maintaining intensive cooperation with renowned academic institutions for many years. The company is a member of the DMG and OMB standardisation committees and therefore exerts a direct influence on the development of guidelines in the intelligent data analysis field. The customers served by prudsys include leading retailers like babywalz, bonprix, Conrad, Coop, Douglas, Klingel, Otto, Obi, SportScheck, Thalia or Würth.

Counter performance transferred The business shares of those shareholders in prudsys AG, who were willing to sell, were acquired at a price of EUR

32.00 each. As a result, cash and cash equivalents amounting to EUR 4,448,000.00 were transferred as counter performance to the shareholders willing to sell their shares.

No other payments or services were made or even promised to the shareholders. The purchase-related costs amounting to EUR 248 K were entered directly in the profit and loss statement as expenditure.

Assets and debts acquired The following overview reflects the acquired assets at the time of the acquisition.

Acquired assets and debts

T.45

EUR K	Fair value
Current assets	**3,597**
Cash and cash equivalents	2,566
Changes in trade receivables and other receivables	1,028
Stocks and inventories of unfinished work	3
Non-current assets	**4,256**
Property, plant and equipment	71
Financial assets	22
Intangible assets	84
Acquired technology (software development)	2,437
Customer relationships	1,642
Current liabilities	**(1,127)**
Trade accounts payable and other payables	(906)
Current statutory provisions	(221)
Non-current liabilities	**(2,400)**
Public sector subsidies	(26)
Assets to be attributed to minorities	(1,069)
Deferred tax liabilities	(1,305)
Total	**4,326**

This purchase price allocation is provisional and will be checked within the 12-month period.

The accounts received acquired as part of the transaction, (which were mainly trade accounts receivable), had a fair value of EUR 1.028. K and a gross contract value of EUR 1,112 K. The best estimate of the contractual cash flows made at the time of the acquisition, which were not expected to be realised, amounted to EUR 94 K.

The assets to be attributed to minorities were determined as a fraction of the identified net assets according to the share of the voting rights of the minorities in the total voting rights - i.e. at EUR 1,069 K.

The goodwill accruing with the acquisition

T.46

EUR K	Carrying amount
Counter performance transferred	4,448
minus the fair value of the net assets acquired	(4,326)
The goodwill accruing with the acquisition	**122**

The goodwill arising from the acquisition of the majority holding in prudsys AG must be taken into account for benefits arising from the expected synergies, growth in turnover, future market developments and the current employees at prudsys AG. These benefits were not entered separately, as they do not meet the recognition regulations for intangible assets. No tax deductibility was expected from the goodwill resulting from the acquisition.

Net outflow of cash and cash equivalents

T.47

EUR K	Carrying amount
Counter performance transferred	4,448
minus cash and cash equivalents	(2,566)
Net outflow of cash and cash equivalents	**1,882**

Effects of the acquisition on the consolidated results A balance amounting to EUR 9 K was entered in the Group's consolidated accounts and this was attributed to the business activities of prudsys AG since the time of the acquisition. prudsys AG contributed EUR 687 K to the Group's turnover revenues. If the acquisition of the company had taken place on 1 January 2017, the share of consolidated turnover generated by prudsys AG would have amounted to EUR 3,854 K and the consolidated earnings would have contained profits of EUR 316 K that were due to prudsys AG. The Management Board is still unclear to what degree these earnings, which are just theoretical, represent a benchmark for the future development of the Group. prudsys AG has recorded constant, slightly increasing turnover figures during the last few years and has proved to be continually profitable, but the considerations that led to this acquisition also focused on significant market synergies, which could be taken into account in these theoretical statements. The scheduled amortisation of the assets identified during the purchase price allocation must also be taken into account in future considerations.

Details on corporate acquisitions in previous periods The contingent owed earn-out arising from the acquisition of the retail division of DBS Data Business Systems, Inc. covering USD 2.5 million was reassessed. The payments become due if the turnover of the North American activities within the Group exceeds certain thresholds. The final settlement date is August 2018. An amount of USD 100 K (approx. EUR 85 K) was determined for the checking period between August 2016 and August 2017. During the checks on the supposed payment for the final accounting period up until August 2018, the discovery was made that it is improbable in the light of the Group's annual planning that it will be possible to make use of the remaining full amount from the earn-out. Accordingly, the associated other liability of USD 2,400 K (EUR 2,001 K) was reduced by USD 1,750 K (EUR 1,459 K) to USD 650 K (EUR 542 K), taking into account an amount that possibly exceeds the fulfilment of the plan, and the reduced amount was entered under "Other earnings".

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.48

EUR K	GK/Retail FY 2017	GK/Retail FY 2016	SQRS FY 2017	SQRS FY 2016	IT Services FY 2017	IT Services FY 2016	Elimintations FY 2017	Elimintations FY 2016	Group FY 2017	Group FY 2016
Turnover with third parties	74,784	64,866	811	877	14,857	11,590	—	—	90,452	77,333
Product licences	8,964	11,484	—	—	867	909	—	—	9,831	12,393
Maintenance	19,412	12,799	797	821	8,987	7,425	—	—	29,196	21,045
Services	45,902	39,833	14	52	1,451	1,162	—	—	47,367	41,047
GK Academy	390	397	—	—	62	—	—	—	452	397
Other business	141	376	—	4	3,550	2,133	—	—	3,691	2,513
Revenue reductions	(26)	(23)	—	—	(60)	(39)	—	—	(86)	(62)
Turnover with other segments	**68**	**199**	**—**	**—**	**608**	**1,035**	**(676)**	**(1,234)**	**—**	**—**
EBIT segment	**1,510**	**3,222**	**464**	**434**	**3,204**	**286**	**(308)**	**—**	**4,871**	**3,942**
Assets	**107,844**	**69,404**	**2,712**	**2,355**	**11,037**	**8,700**	**(15,116)**	**(8,843)**	**106,477**	**71,616**
Debts	**74,166**	**40,327**	**75**	**74**	**6,589**	**6,194**	**(12,901)**	**(6,633)**	**67,929**	**39,962**
Cash and cash equivalents	**25,218**	**5,059**	**1,473**	**547**	**3,788**	**411**	**—**	**—**	**30,479**	**6,017**

Depreciation and amortisation for the GK/Retail segment amounted to EUR 3,463 K (previous year: EUR 3,485 K), for SQRS EUR 0 K (previous year: EUR 0 K) and for IT Services EUR 317 K (previous year: EUR 376 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.

Turnover of EUR 42,924 K (previous year: EUR 27,794 K) was generated with customers that have their administration headquarters located outside Germany. 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 517 K (previous year: EUR 252 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 838 K (previous year: EUR 1.019 K), but was valued as domestic turnover because of the contractual basis and was 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 20,542 K (previous year: EUR 10,822 K) or 22.7 percent in 2017 (previous year: 14.0 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.

As the financial assets are normally not covered by securities, the maximum default risk 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 securities that the IASB assumes to be the normal case (IFRS 7.B9) and other risk-minimising arrangements do not normally need to be taken into account at this point. Exceptions exist for accounts receivable with closely related persons and companies and amounted to EUR 2,204 K on the reporting date. Claims amounting to EUR 2,015 K were secured by compensation claims that economic beneficiaries have against the Group.

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 were secured by interest rate ceiling mechanisms in the form of caps. The hedging mechanism for the remaining loan had a term until 30 June 2017 and was secured with a capping rate of 0.0 percent because the full repayment of the original loan for EUR 750 K took place in 2017. No new interest rate hedging transaction with a top rate agreement was concluded for the loan from the Commerzbank AG worth 180K euros from ERP funds in 2017. The derivative financial instruments (interest rate caps) were not assessed at their fair value for material points of view. The cap premiums were reported under “Other assets” with figures of EUR 10 K (previous year: EUR 2 K) and were 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 market value of these interest capping mechanisms on a nominal volume of EUR 214 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 0 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 EUR 856 K (previous year 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” (“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.49

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	856	(28)
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)	27,359	24.925
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)	56,266	30,794

The Group's financial assets were subject to impairment amounting to EUR 340 K on 31 December 2017 (previous year: EUR 509 K). EUR 340 K (previous year: EUR 509 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.50

EUR K	Notes No.	31.12.2017	31.12.2016
Write-ups for amortised accounts receivable	4.3.	328	12
Expenditure from the allocation to valuation adjustments	3.4.	(190)	(313)
Account balance		138	(301)
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 write-downs, 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.

As the addresses of those with whom accounts receivable and financial assets exist or are being kept safe in the form of cash and cash equivalents either have an excellent reputation or are individually known and have met their obligations towards the Group regularly in the past, the Management Board does not believe that there is any adequate reason to doubt the intrinsic value of the accounts receivable or financial assets or the claims to issue the cash and cash equivalents that are being held, even if they are not yet due for payment of have not been subjected to a value adjustment.

Concentrations of risks only emerge for the Group if temporarily available excesses of cash and cash equivalents are only held in particular classes of assets on account of the principle of seeking to maintain the value of the assets. If these classes of assets are affected by negative influences (e.g. highly available money market assets applicable at this time or demand deposits), this affects all the financial assets held in this class of asset - in the example here, the cash and cash equivalents. The Group is seeking to minimise the relevant risks in the light of its goals by spreading the affected assets in a relevant manner. Address risks could become default and liquidity risks for the Group, if, for example, asset decisions and derivative financial instruments are placed at the same address. The Group is seeking to reduce this risk within its capabilities by selecting banks with an excellent reputation. Default risks in the area of trade accounts receivable or those based on the progress made in work may accumulate to such a degree that interdependence exists with the relevant contract partners among each other. The assistance provided by operational market observations helps to manage these kinds of risk culminations and recognise these kinds of concentrations.

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

The maturity structure of trade accounts receivable

T.51

EUR	31.12.2017	31.12.2016
Not overdue	16,075,404.15	16,491,781.19
1 to 30 days overdue	932,318.69	933,815.61
31 to 90 days overdue	357,697.17	485,280.41
More than 90 days overdue	345,442.41	120,858.80
Total	**17,710,862.42**	**18,031,736.01**

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 2017:

Changes in value adjustments according to IFRS 7.16

T.52

EUR K	2017	2016
Situation at the start of the year	437	136
Value adjustments on accounts receivable	209	313
Reversal of value	(328)	(12)
Situation at the end of the year	**318**	**437**

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.

Value adjustments amounting to EUR 318 K were formed at the end of the year, which all affected trade accounts receivable. These value adjustments were partially an expression of the experience that it is not possible to recoup all the payments that have been promised in agreements for a wide variety of reasons. If the due date is 30 days or more, a checking process starts and this investigates the reasons for the overdue payments and leads to specific value adjustments for individual accounts receivable. This concerned accounts receivable amounting to EUR 275 K with value adjustments of EUR 209 K on 31 December 2017. In these cases, it is normally true that customers do not recognise parts of the accounts receivable because of the work performed and the questionable parts are waived on the basis of an accommodating arrangement.

The parent company had taken out the following loans on 31 December 2017:

Loans

T.53

EUR	Nominal amount	31.12.2017	31.12.2016
Investment loan from Commerzbank Plauen	750,000.00	0.00	37,500.00
Investment loan from Commerzbank Plauen	450,000.00	213,750.00	236,250.00
ERP loan from Commerzbank Plauen	180,000.00	31,500.00	49,500.00
Loan from DZ Bank, Frankfurt	748,000.00	187,000.00	280,500.00
Loan from DZ Bank, Frankfurt, mantle agreement	5,000,000.00	5,000,000.00	0.00
Loan from IKB	10,000,000.00	6,500,000.00	8,500,000.00
Loan from Sparkasse Vogtland	3,000,000.00	2,035,713.00	2,464,285.00
Loan from Sparkasse Vogtland	2,750,000.00	2,609,750.00	0.00
Loan from Skoda Bank	21,503.08	15,575.71	18,724.12
Total	**22,899,503.08**	**16,593,288.71**	**11,586,759.12**

The investment loans with the Commerzbank Plauen will be or were repaid on schedule with constant instalments until 30 June 2017 (annual repayment of EUR 37.5 K) or 30 June 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.

The interest payments for the remaining two investment loans have been secured by means of a maximum rate agreement (cap). The hedging mechanism has a term until 30 June 2027 and is secured with a capping rate of 0.0 percent. No new interest rate hedging transaction with a top rate agreement was concluded for the loan from the Commerzbank AG worth 180K euros from ERP funds.

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.

Another general loan of EUR 5,000 K was taken out with the DZ Bank with an initial term until 28 February 2019 during the course of the financial year. The amount was completely used.

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 2,036 K on the reporting date. Another fixed-interest loan was taken out with the Sparkasse Vogtland bank amounting to EUR 2,750 K in conjunction with funding the new building in Schöneck. This was valued at EUR 2,610 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 6,500 K on the reporting date.

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

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.54

	Assets		Debts	
EUR K	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Czech crowns	879	417	708	546
Swiss francs	164	72	146	138
Russian roubles	78	115	3	0
US dollars	5,656	4,498	3,490	5,321
South African rand	1,816	1,165	68	252
Ukrainian hryvnia	70	16	2	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.55

	Exchange rate loss of (10)% for the euro		Exchange rate gain of 10% for the euro	
EUR K	2017	2016	2017	2016
Czech crowns				
Annual results	19	(14)	(16)	12
Equity	410	336	(336)	(275)
Swiss francs				
Annual results	2	(7)	(2)	6
Equity	8	1	(3)	(1)
Russian roubles				
Annual results	8	13	(7)	(10)
Equity	5	6	(4)	(5)
US dollars				
Annual results [1]	242	(91)	(197)	75
Equity [1]	75	(68)	(61)	56
South African rand				
Annual results	195	101	(159)	(83)
Equity	2	(34)	(2)	28
Ukrainian hryvnia				
Annual results	8	2	(6)	(1)
Equity	8	9	(7)	(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 take out 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 423 K were made and interest expenditure of EUR 786 K was recognised 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 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 rate is set quarterly at a rate of 1.5 percentage points above the 3-month EURIBOR rate in the case of the investment loans taken out with the Commerzbank to the value of EUR 450 K. The interest risk has been restricted by an interest rate cap of 0.0 percent p.a. 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 28 K during 2017 (determined using the factual interest expenses during 2017 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. Interest revenues have not been entered from these depreciated financial assets.

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

The Group has securities for loans that have been granted and they are designed to reduce the default risk on financial assets. 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.56

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 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	1.5585	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	—	—	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
31 December 2017								
Interest-free	—	11,729,416.78	13,718,783.61	857,785.28	488,415.21	—	**26,794,400.88**	26,794,400.88
Variable interest rate	1.281	2,405,125.52	—	227,500.00	851,500.00	1,776,000.00	**5,260,125.52**	5,260,125.52
Fixed interest rate	2.30/4.10/ 2.19/3.92	—	—	7,525,274.68	19,362,398.10	—	**26,887,672.78**	26,887,672.78
Financial guarantees	—	—	—	10,584.14	50,037.00	—	**60,621.14**	60,621.14

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 2017 financial year amounted to EUR 10 K.

The Group can resort to credit lines amounting to EUR 9,000 K. EUR 6.590 K 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.57

EUR K	31.12.2017	31.12.2016
Non-collateralised current account lines	**4,000**	**4,000**
of which: taken up	7	3,086
of which: not taken up	3,993	914
Collateralised current account lines	**5,000**	**1,000**
of which: taken up	2,403	—
of which: not taken up	2,597	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 7,417 K on the balance sheet reporting date. The item was entered under “Other liabilities” with a fair value of EUR 856 K on the basis of the bank assessment in 2017. A corresponding amount was 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 and this was valued at USD 0.65 million on 31 December 2017.

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.

Guarantee loans amounting to EUR 60 K (previous year: EUR 38 K) existed for contingent liabilities and they were granted by Volksbank Vogtland e.G. (EUR 23 K), Commerzbank (EUR 19 K) and DZ-Bank (EUR 8 K). The securities act as normal coverage for renting the business premises in Berlin, Cologne and St. Ingbert. The rental guarantee is secured by pledging bank credit balances amounting 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.

GK Software USA Inc. currently faces compensation claims from one customer. The risk of possibly having to make use of funds as a result of this dispute cannot be precisely assessed at the current time. The management of GK Software USA Inc. is disputing all the claims that have been asserted and assumes that it will not be possible to enforce them.

8.3. Operating leasing agreements

The operating leasing agreements relate to vehicle leasing arrangements. The payments entered as expenditure for the 2017 financial year amounted to EUR 1,467 K (previous year: EUR 1,301 K).

There were payment obligations arising from operating leasing contracts amounting to EUR 3,569 K (previous year: EUR 2,932 K). EUR 1.776 K is due for repayment within one year (previous year: EUR 1.342 K) and EUR 1.793 K (previous year: EUR 1.590 K) within five years. There were no finance leasing agreements.

8.4. Subsidiaries

Subsidiaries of GK Software SE

T.58

Name of the subsidiary	Headquarters	Capital share in %	Voting right share in %	Main business	Annual results in EUR K
Eurosoftware s.r.o.	Plzen/Czech Republic	100.0	100.0	Software development, software programming	466
StoreWeaver GmbH	Dübendorf/Switzerland	100.0	100.0	Software development, software programming	419
1. Waldstraße GmbH	Schöneck	100.0	100.0	Software development, software programming	(5)
OOO GK Software RUS	Moscow, Russian Federation	100.0	100.0	Software development, software programming	(8)
AWEK GmbH	Barsbüttel	100.0	100.0	IT Services	1,304
AWEK microdata GmbH	Barsbüttel	100.0	100.0	Software development, software programming	718
GK Software USA Inc.	Raleigh/USA	100.0	100.0	Software development, software programming	(1051)
GK Software Africa (Pty) Ltd	Bryanston/South Africa	100.0	100.0	Software development, software programming	63
TOV Eurosoftware-UA	Lviv, Ukraine	100.0	100.0	Software development, software programming	41
Prudsys AG	Chemnitz	80.12	80.12	Software development, software programming	316

All the companies named here are fully consolidated in these consolidated accounts; prudsys AG has been included on the basis of two months.

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 consolidated accounts for reasons of materiality. An initial contribution (EUR 25 K) is also being held for Fuel Retailing GmbH, which is being set up, but has not yet started operating as a business and has therefore not been treated as a holding.

8.5. Details of associated persons and firms

There was no need for any expenditure on value 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 SE is GK Software Holding GmbH, Schöneck. Commercial relationships existed as part of an agency agreement during 2017. Revenue of EUR 1 K from this has been included under "Other income".

8.5.2. The 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 1.452 K in all. This included EUR 750 K in fixed earnings, EUR 600 K in variable earnings and monetary benefits amounting to EUR 102 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 31,000 options on 31 December 2017. 6,000 of these were allocated to the share option scheme dating from 2014, 5,000 options from 2015, 10,000 from 2016 and 10,000 from 2017; each option had a fair value of EUR 11,929, EUR 6,240, EUR 6,420, EUR 8,302, EUR 9,202 and EUR 28,370 on the date of issue. The share-based remuneration for the year 2017 therefore totalled EUR 56 K. 13,000 options are held by two former members of the Management Board.

The Company created pension provisions amounting to EUR 707 K for former members of the Management Board and their surviving dependents (previous year: EUR 666 K). The sum required to meet this provision amounted to EUR 1,537 K (previous year: EUR 1,362 K) and the net plan assets entered on the balance sheet had a fair value of EUR 830 K (previous year: EUR 696 K). Other non-current due benefits therefore amounted to EUR 707 K in all on the reporting date, EUR 41 million of which was added in 2017.

Therefore, the total remuneration for the Management Board amounted to EUR 1.508 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 298 K (previous year: EUR 325 K) for former members of the Management Board and their surviving dependents. The settlement value of this provision amounted to EUR 669 K (previous year: EUR 628 K) and the net plan assets had a fair value of EUR 370 K (previous year: 303 K).

The past service costs for the members of the Management Board therefore amounted to EUR 0.3 million and for former members of the Management Board EUR 0.1 million.

We would refer you to section 3.10 for the form of the pension promises.

Those who are or were members of the Company's Management Board or Supervisory Board during the 2017 financial year directly held the following shareholdings in GK Software on 31 December 2017:

T.59 Shareholdings held by members of the Management Board and Supervisory Board

Name	Number of shares	in %
Rainer Gläss	62,792	3.30
Herbert Zinn	1,000	0.05
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 2017.

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 SE amounted to EUR 80 K during the 2017 financial year (previous year: EUR 80 K). They represent current 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.60

Accounts receivable from associated firms and persons

EUR K	31.12.2017	31.12.2016
Loans to associated firms, which are not part of the consolidated group	1,982	1,995
Other claims from members of the management team in key positions (Management Board members)	59	43
Accounts receivable from associated firms, which are not part of the consolidated group	254	391
Total	**2,295**	**2,429**

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 1,982 K on the balance sheet reporting date (previous year: EUR 1,995 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 59 K (previous year: EUR 43 K) cover 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 573 K was also incurred (previous year: EUR 496 K). In addition to this, EUR 148 K (previous year: EUR 143 K) of income was generated from closely related firms in connection with providing vehicles and other services and expenses were incurred for additional services amounting to EUR 176 K (previous year: EUR 189 K). In addition, revenues from retirement benefits amounting to EUR 72 K (previous year: EUR 74 K) and expenditure from providing project services amounting to EUR 1,271 K (previous year: EUR 937 K) was generated. The outstanding accounts receivable with this firm were valued at EUR 254 K (previous year: EUR 381 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 176 K for auditing services in 2017.

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 SE's home page at https://investor.gk-software.com in the "Corporate Governance" section.

8.8. Informationaftertheannualaccountsreportingdate

Information about circumstances, which existed on the reporting date for the annual accounts, were taken into account if the Management Board knew about it by 26 April 2018.

GK Software AG was transformed into a European public limited company on 19 January 2018 when the change was entered in the Commercial Register. The Company now operates under the GK Software SE name.

By making use of contingent capital, the number of voting rights at GK Software SE amounted to 1,919,875 on 31 March 2018.

8.9. Details of Group affiliation

GK Software SE, and therefore the GK Software Group, are subject to the direct control of GK Software Holding GmbH (HRB 24111 Chemnitz) with its headquarters in Schöneck, as the ultimate parent company.

8.10. Day on which the accounts were approved for publication

The Management Board approved these consolidated accounts to be forwarded to the Supervisory Board on 26 April 2018. The Supervisory Board has the job of checking the consolidated accounts and stating whether it endorses them or not.

Schöneck, 26 April 2018

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 SE 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, 26 April 2018

The Management Board

Rainer Gläss
Chief Executive Officer

André Hergert
CFO

Independent Auditor's Report

To GK Software SE (formerly GK Software AG), Schöneck

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of GK Software SE (formerly GK Software AG), Schöneck, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of GK Software SE (formerly GK Software AG), which is combined with the Company's management report, for the financial year from January 1 to December 31, 2017. We have not audited the content of those parts of the group management report listed in the „Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to [§ [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code]] § 315e Abs. 1 HGB, and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the „Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit

Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1 **Recoverability of goodwill**

2 **(Wandelschuldverschreibung)**

3 **Revenue recognition and allocation of revenue to correct periods**

Our presentation of these key audit matters has been structured in each case as follows:

1 Matter and issue

2 Audit approach and findings

3 Reference to further information

Hereinafter we present the key audit matters:

1 **Recoverability of goodwill**

1 Goodwill amounting in total to EUR 14,807 K (representing 14 % of total assets and 38 % of equity) is reported under the „Intangible assets“ balance sheet item in GK Software SE (formerly GK Software AG)'s consolidated financial statements. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. Impairment testing is carried out at the level of the cash-generating unit to which the relevant goodwill has been allocated. The carrying amount of the cash-generating unit, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The calculation of the recoverable amount generally employs the value in use. The present value of the future cash flows from the cash-generating unit normally serves as the basis of valuation. The present values are calculated using discounted cash flow models. For this purpose, the medium-term business plan adopted by the Group forms the starting point for future projections. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the cash-generating unit. The impairment test determined that no write-downs were necessary. The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the cash-generating unit, the discount rate used, and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

2 As part of our audit, we reviewed the methodology employed for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the medium-term business plan adopted by the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated using this method, we focused our testing in particular on the parameters used to determine the discount rate applied, and verified the calculation procedure. We reproduced the sensitivity analyses performed by the Company, in

order to reflect the uncertainty inherent in the projections. Taking into account the information available, we determined that the carrying amount of the cash-generating unit, including the allocated goodwill, were adequately covered by the discounted future net cash inflows. Overall, the measurement inputs and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3 The Company's disclosures about impairment testing and the balance sheet item „Intangible assets" are contained in the section "Accounting and measurement methods" and section 3.2 „Intangible assets" of the notes to the consolidated financial statements.

2 Evaluation and assessment of convertible bonds

1 GK Software SE issued convertible bonds worth EUR 15,000 K during the 2017 financial year. Convertible bonds may involve combined financial instruments in the sense of IAS 32.28 ff, which contain both equity and outside capital components and the termination rights may need to be separated. In this kind of case, these components need to be separated and entered on the balance sheet separately according to IAS 32 or IAS 39. As the conversion right from the Company's point of view as the issuer leads to the supply of its own shares, legal representatives need to check whether the conversion right represents an equity component that needs to be separated. Based on the assessment by the legal representatives, equity worth EUR 1,248 K and outside capital worth EUR 13,044 K were entered. The balance sheet entry and the assessment-relevant parameters required for this took place on the basis of the estimates by the Company's legal representatives and therefore contain considerable uncertainties. In the light of this and because of the complexity of the entry on the balance sheet, this matter was of particular importance as part of our audit.

2 As part of our audit, we took a critical look at the issue conditions for the convertible bonds with support from our internal specialists in the corporate treasury solutions department and we assessed the Company's methodical procedure for evaluating and assessing the convertible bonds. Along with this, we reconstructed the classification and separation of the combined financial instrument into outside capital and equity components, as performed by the Company's legal representatives. We also reproduced the balance sheet treatment of the termination right and assessed the appropriateness of the underlying estimates and assumptions made by the legal representatives when entering these items on the balance sheet. Based on our audit actions, we were convinced that the estimates made by the legal representatives to enter the convertible bonds on the balance sheet and the assessment parameters and assumptions used are well-founded and adequately documented.

3 The Company's statements on this balance sheet item are contained in the "Balance sheet and assessment methods" and in the 8.1 "Financial Instruments" sections in the notes on the consolidated accounts.

3 Revenue recognition and allocation of revenue to correct periods

1 Revenue amounting to EUR 90,452 K is reported in the consolidated statement of comprehensive income in the consolidated financial statements of GK Software SE (formerly GK Software AG). The company recognizes revenue from the sale and temporary granting of licenses, the provision of installation services and advice, maintenance and other services. The recognition of revenue from the sale of licenses depends on the existence of a binding contractual arrangement, the transfer of material rights to the buyer and the ability to reliably determine the consideration paid. Proceeds from services are realized as at the date the services are rendered, while maintenance revenue and proceeds from the temporary granting of licenses is realized over the performance period. These various services rendered by the company can be the object of agreements with customers, either individually or in various constellations. In this connection, the company must also identify contracts relating to multiple components and account for agreed individual services individually. In light

of the complexity of the customer agreements underpinning revenue recognition, these significant items are subject to particular risk. Against this background, the correct application of the accounting standards is considered to be complex and is based in some respects on estimates, assumptions and discretion used by the executive directors, with the result that this matter was of particular importance for our audit.

2 As part of our audit, we assessed, among other things, the correct presentation of revenue in the consolidated financial statements on the basis of the accounting policies applied by GK Software SE (formerly GK Software AG) in relation to the recognition of software revenue in accordance with the relevant IFRSs.

To do so, we first identified the material controls implemented by the Group to ensure the correct identification of contracts, specifically contracts covering multiple components, and individual services and the recognition of revenue, assessed their appropriateness and tested their effectiveness with respect to avoiding and/or identifying errors. Moreover, we assessed in detail the recognition of revenue from individual material transactions, as well as further transactions on a test basis, in light of contracts, proof of performance and payments, as well as assessing in particular the proper allocation of such transactions to the correct periods. In addition, we verified the consistency of the methods used by the Company to recognize revenue.

In this connection, we also assessed the appropriateness and mathematical accuracy of individual assumptions made by the executive directors when determining the fee to be allocated to the respective individual services under multiple-component contracts, as well as the accounting treatment applied. Based on our audit procedures, we satisfied ourselves that the estimates and assumptions relating to revenue recognition made by the executive directors were adequately documented and justified.

3 The Company's disclosures on revenue recognition are contained in sections "Accounting and measurement methods" and "4.1 Sales revenues" of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 315d HGB included in a separate section of the group management report
- The separate non-financial consolidated corporate report pursuant to § 315b HGB
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism during the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on June 22, 2017. We were engaged by the supervisory board on August 1, 2017. We have been the group auditor of GK Software SE (formerly GK Software AG), Schöneck, without interruption since financial year 2017.

We declare that the audit opinions expressed in this auditor’s report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Andreas Kremser.

Carl Erik Daum
Auditor

Andreas Kremser
Auditor

Financial Calendar

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

26 – 28 November 2018
Analyst conference in Frankfurt/M.

26 November 2018
Interim statement as of 30 September 2018

26 April 2019
Annual report as of 31 December 2018

30 May 2019
Interim statement as of 31 March 2019

20 June 2019
Annual shareholders' meeting 2019 in Schöneck/V.

29 August 2019
Interim report as of 30 June 2019

November 2019
Analyst conference in Frankfurt/M.

26 November 2019
Interim statement as of 30 September 2019

Imprint/Notes

Imprint

Publisher:
GK Software SE
Waldstraße 7
08261 Schöneck

P: +49 37464 84-0
F: +49 37464 84-15

www.gk-software.com
investorrelations@gk-software.com

Chairman of the Supervisory Board:
Dipl.-Volkswirt Uwe Ludwig

Management board:
Dipl.-Ing. Rainer Gläß, CEO
Dipl.-Kfm. André Hergert, CFO

Commercial Register Chemnitz HRB 31501

USt.-ID. DE 141 093 347

Photos:
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Contact Investor Relations

GK Software SE
Dr. René Schiller
Friedrichstr. 204
10117 Berlin

P: +49 37464 84-264
F: +49 37464 84-15

rschiller@gk-software.com

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 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 SE 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 SE could vary from those, which are expressed or implied in these forecasts. The Company assumes no obligation to update such expressions or forecasts.