Annual Report

2011

GK SOFTWARE

Summary of Consolidated Results

	31.12.2011	31.12.2010	Growth
Sales (EUR K)	31,753	27,690	14.7%
Total operating revenue (EUR K)	33,242	28,338	17.3%
Operating performance (EUR K)	33,971	29,706	14.4%
EBIT (EUR K)	6,654	6,435	3.4%
EBIT margin (on sales)	21.0%	23.2%	
EBIT margin (on total operating revenue)	19.6%	21.7%	
EBT (EUR K)	6,569	6,307	4.2%
Annual net income (EUR K)	4,564	4,471	2.1%
Earnings per share (weighted) [1]	2.55	2.68	
Earnings per share (diluted) (EUR)[2]	2.55	2.68	
Equity ratio	64.9%	54.3%	
Net debt (EUR K)	(8,617)	(7,457)	15.6%

Developments in terms of quarters

EUR K	Q1/2011	H1/2011	9M/2011	Total/2011
Sales	6,719	14,445	20,256	31,753
EBIT	1,168	2,478	2,809	6,654
Surplus funds	682	1,627	1,860	4,564

1 The calculations are based on the average number of shares (1,790,000) entitled to share in the profits on 31 December 2011. On average, 1,668,767 shares had been issued on 31 December 2010. Based on the number of shares, earnings per share would have been 2.74 euros. Based on the number of shares entitled to share in profits on 31 December 2011, earnings per share for 2010 would be 2.50 euros.

2 A Group share action program had issued preemptive rights to 19,525 shares in all to Group employees by 31 December 2011.

Content

1. Quarter

Major order from a leading international sports item manufacturer based in Herzogenaurach for as many as 2,000 stores around the globe

Punctual launch of LUNAR pilot project for EDEKA – system introduced to first stores in the south-west region

Retail Technology Award Europe for the joint SAP/GK SOFTWARE AG project at EDEKA

2. Quarter

SAP approves sale of three GK SOFTWARE AG solutions in Germany, Austria and Switzerland

Start of rollout to equip more than 500 EDEKA Rhein-Ruhr stores with GK/Retail POS

Conclusion of the initial project to introduce GK/Retail POS at a leading European discount store

Axia-Award 2011

Deloitte.
Technology Fast500
EMEA 2011

Deloitte. 2011
Technology Fast 50
Deutschland

Highlights 2011

3. Quarter

First order through SAP after approval for Germany – Austria – Switzerland – Fressnapf opts for two solutions from GK SOFTWARE AG

Official presentation of SAP solutions by GK at the EMEA-Sapphire, the central SAP customer fair in Madrid

The Prestigious **Prize for Medium-Sized Enterprises** awarded to GK SOFTWARE AG

4. Quarter

Parfümerie Douglas tests mobile tills on iPods – **first iOS-based till software** in the German-speaking world

Michael Jaszczyk (CTO) and Oliver Kantner (COO) appointed as **new members of the Management Board**

Order from a well-known international fashion retailer to equip stores in more than two dozen countries

Partner for the retail trade

Partner for the Retail Trade

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

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

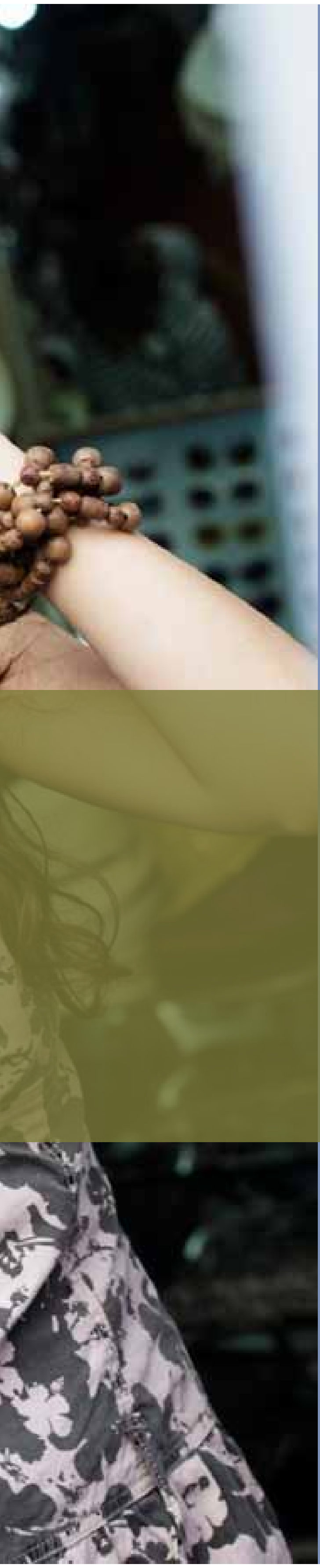
Dynamic Growth

GK SOFTWARE AG has been growing dynamically for many years and has been able to attract leading retailers as customers. They operate approx. 26,500 stores in more than 30 countries using solutions from GK SOFTWARE AG.

Growth in sales at GK SOFTWARE AG in 2010 amounted to approx. 15 percent and high profit levels were maintained. So sales have risen by more than one third during the past two years.

Dynamic Growth

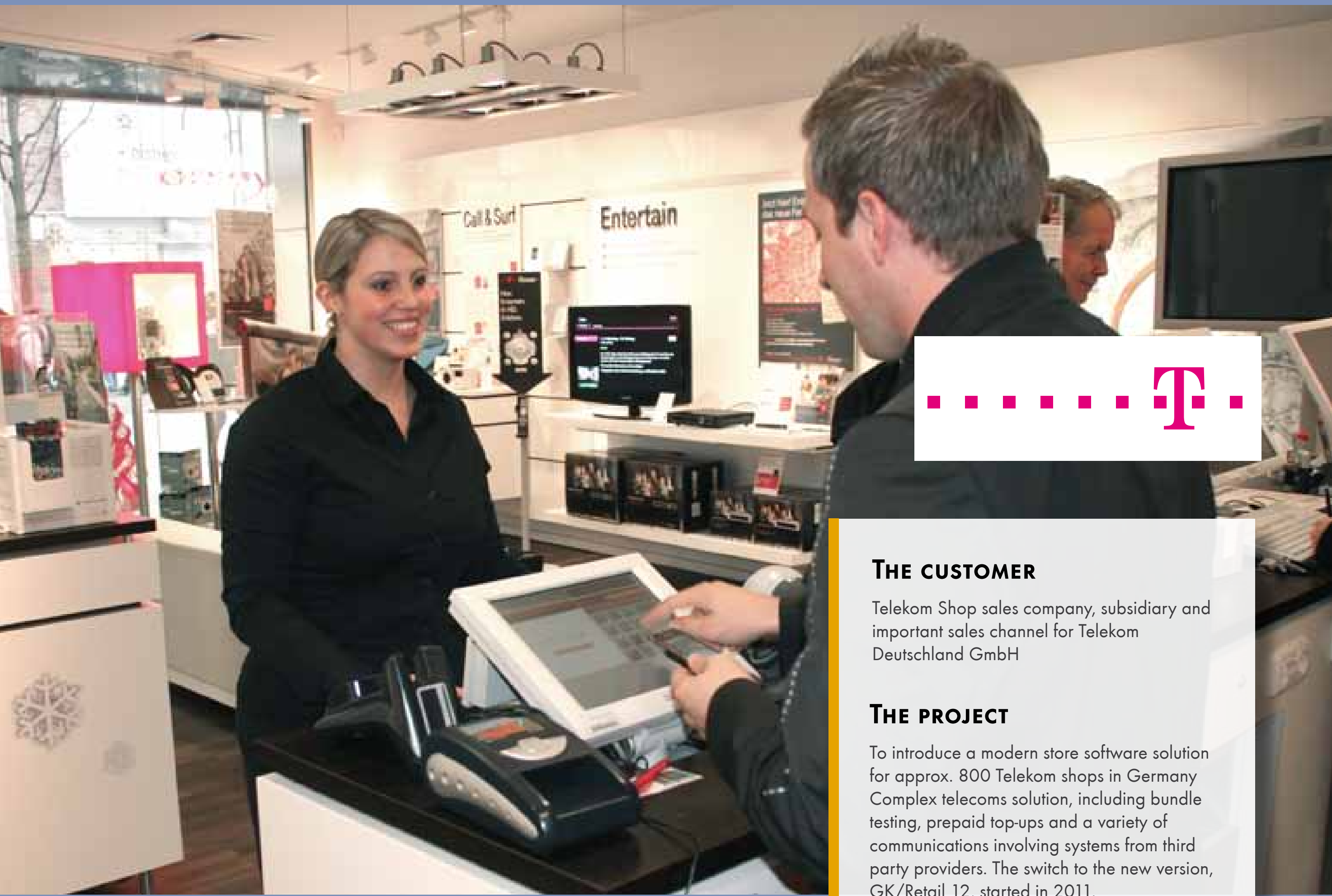
Comprehensive software Packages



Comprehensive Software Packages

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

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



Successful Projects

"BY SWITCHING TO THE NEW VERSION OF GK/RETAIL, WE ARE EXPECTING A SIGNIFICANT INCREASE IN THE DEGREE OF STANDARDIZATION, IMPROVED CAPABILITY TO CONFIGURE THE PRODUCT AND A SHORTER TIME-TO-MARKET AS A RESULT OF MODERN SOFTWARE AND DISTRIBUTION TECHNOLOGIES."

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

The customer

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

The project

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

The benefits

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

Satisfied Customers

"WE DELIBERATELY SELECTED A STANDARD SOFTWARE SOLUTION IN ORDER NOT TO LOSE CONTACT WITH FUTURE DEVELOPMENTS AT GK/RETAIL."

Hansjörg Bausch, IT Organization Manager at Galeria Kaufhof

The customer

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

The project

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

The benefits

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

Stephan Kronmüller
Deputy CTO

André Hergert
CFO

Rainer Gläß
CEO

Michael Jaszczyk
CTO

Oliver Kantner
COO

To the Shareholders

Rainer Gläß, CEO

Letter from the Management Board

Dear shareholders,

Fiscal 2011 was a very successful year for GK SOFTWARE, the most successful in the company's history. The company was able to increase sales and earnings by more than ten percent for the eighth year in succession – and was able to almost triple sales just in the four years since the IPO. Sales revenues rose to 31.75 million euros in 2011, which represents an increase of approx. 14.7 percent in comparison to the previous year's figure. Earnings before interest and taxes (EBIT) also rose to 6.65 million euros, which is 3.4% more than the previous year's figure. As a result, the company achieved an EBIT margin based on sales of 21.0 percent, which is slightly above our expectations. Group profits rose by 2.1 percent to 4.56 million in fiscal 2011, compared to a figure of 4.47 million euros in the previous year.

This growth, which was purely organic, was based on the punctual completion of current projects and the ability to gain new customers. The company's sales base was significantly strengthened by SAP's approval of three GK SOFTWARE AG solutions for sale in Germany, Austria and Switzerland. As a result, it was possible to gain Fressnapf as the first major international project in conjunction with SAP.

In addition to the Fressnapf project, which involves more than ten countries and more than 1,000 stores, the company was able to win other major projects in fiscal 2011. A leading international sports item manufacturer decided to use GK/Retail during the first quarter of the year. This company operates more than 2,000 stores around the globe. Another major fashion retailer also decided to use GK SOFTWARE products. The company, which is not based in Germany and with which a confidentiality arrangement was agreed until the installation of the first pilot store, operates more than 700 stores in some two dozen countries. These two significant projects will enable GK SOFTWARE to gain important references in the fashion sector and also significantly increase the number of countries where GK/Retail is in use.

SAP was also able to gain Valora as a new customer for our till software, which is sold under the "SAP Point-of-Sale by GK" brand, at the turn of the year. Valora operates kiosks and other small stores in the German-speaking world and Luxembourg – 1,200 of them in Switzerland and 1,500 of them in Germany following the takeover of the Lekkerland subsidiary Convenience Concept in January 2012 (subject to approval by the German anti-trust authorities).

Further progress was made in completing the order from EDEKA for the LUNAR Project during the reporting year. LUNAR is one of the world's largest IT projects in the retail sector and GK SOFTWARE is supplying the store software in conjunction with SAP; this will make it possible for the first time to establish an end-to-end link from stores to enterprise headquarters in direct conjunction with SAP's central system. The first pilot installation in the EDEKA South West region was put to productive use on time in February. The first pilot stores have now gone live at other stores in the south-west region and also at EDEKA stores in northern Bavaria. EDEKA won the Retail Technology Award Europe in the Best Enterprise Solution category in February for completing this project. All these stores are not only using the merchandise management and Store Device Control software, but also the till solution from GK SOFTWARE AG. The comprehensive rollout of these components is already under way in the Rhine-Ruhr region.

Fiscal 2011 also witnessed extraordinary, comprehensive mass rollouts in other major projects too. More than 35,000 new GK/Retail installations were put to productive use in 2011 alone by adapting stores at customers like Lidl, Coop and X5 in Russia. This means that approx. 130,000 systems are now operating our software solutions in 26,500 stores. More than 35 different national versions of the software are now available, although several language versions exist alongside each other in some countries (e.g. Switzerland, Belgium, Bosnia).

Business developments in existing projects were marked by two main factors. Firstly, several significant projects are in the process of being switched to Major Release 12 or this has already been completed. The fact that our long-standing customers are switching to the new release en masse is evidence of the huge confidence placed in the quality of our software solutions and the stability of our customer relations.

In addition to this, the vast majority of our existing projects have progressed according to plan, as new demands are being created in the ongoing retail business all the time and they have to be mapped in store software; and our new solutions are attracting huge interest.

We continued to develop our GK/Retail business suite during the reporting year and strengthened it by adding several major new elements. One major area involved the onward development of the StoreWeaver EE (Enterprise Edition) software package, the most important parts of which are being sold by SAP under the "'SAP Offline Mobile Store by GK" and "SAP Store Device Control by GK" brands. The solution, which is fully integrated in SAP, has been expanded even further in terms of its functions. New mobile platforms like iOS and Android are being opened up for StoreWeaver EE at the moment, as we have recognized a strong trend moving in this direction.

Another major focus at our development department was the new scales software called GK/Retail Open Scale, which enables the retail sector to select between various types of hardware without creating any separate isolated software areas. Open Scale received official approval from the German PTB (Germany's National Metrology Institute) at the beginning of 2012 and it can therefore be actively sold by partner corporations.

In addition to our new Smart Vision GUI (Graphical User Interface), which can be used across the board, and many further technical and functional developments, one highlight in the field of our store solutions was the new design of our tills based on the iOS Apple operating system. We were able to go live with a productive enterprise solution as the first provider in Germany and one of the first in the world by launching test operations for our till software on iPods at Parfümerie Douglas. There is currently huge demand from the retail sector in this field and we believe that we are very placed with our specific individual solutions for iPods/iPhones and iPads. We received appreciation from sector experts for our software solution by winning the 2012 Retail Technology Award Europe in the "best instore solution" category.

We were able to introduce a fully functioning solution for the banking sector together with Postbank at the EuroCIS 2012 – the most important sector trade fair in Europe – for the first time. A real Postbank branch was located on our trade fair booth and it demonstrated how classic banking transactions can be handled using a software package that was based on GK/Retail POS.

The development of the share price did not reflect the company's very positive developments during the reporting period, after the share price had risen almost 50 percent during fiscal 2010. The share price followed the general market trend from August onwards as a result of the economic problems in Greece and at times fell to a very low figure of 33.50 euros. The price recovered at the end of the year to 40.80 euros, but was still well below the figure at the start of the year (51.00 euros).

The GK SOFTWARE annual shareholders' meeting once again impressively demonstrated shareholders' support for the course being pursued by the Management Board. As in the previous year, all the decisions were passed unanimously and without any abstentions.

Major changes took place on the company's Management Board on 1 November. Stephan Kronmüller, joint company founder and member of the Management Board for many years, was replaced by Michael Jaszczyk as CTO at his own request. Stephan Kronmüller remains linked to the company as a deputy member of the Management Board and now heads the GK FutureLab, where new technologies are being tested and evaluated, among other things. Oliver Kantner also became the new COO on 1 November – he had led this department on a temporary basis for several months. Ronald Scholz left the company at his own request. The Management Board thanked Mr. Kronmüller and Mr. Scholz for their many years of service to the company.

The ongoing far-reaching negotiations with customers at home and abroad indicate that the positive development of the company will continue in the future. We assume that sales will continue to rise if business developments are positive in fiscal 2012. We expect levels of profitability to be similar to those recorded during the last few years. But this forecast is subject to the proviso that no extraordinary events take place, which could negatively impair the overall economy or the retail sector. We are therefore confident that we are very well prepared to meet the needs of the retail sector with our well-placed portfolio of products in 2012 too.

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

The Management Board

Rainer Gläß
(CEO)

André Hergert
(CFO)

Michael Jaszczyk
(CTO)

Oliver Kantner
(COO)

Corporate Governance Report

according to Section 289a of the German Commercial Code

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

Cooperation between the Management and Supervisory Boards

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

Transparency

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

The company will appoint a voting proxy for the 2012 annual shareholders' meeting and this will allow shareholders, who cannot attend the annual shareholders' meeting, to exercise their voting rights. All the public information, like ad-hoc and press releases, the financial reports and the reports for the annual shareholders' meeting will be available on the company's website.

Risk Management

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

Statement of Compliance

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

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

The last annual declaration was submitted in April 2011. The following declaration relates to the version of the Code dated 26 May 2010 for the past. As there is no updated version of the Code available at the moment, future practices related to corporate governance at GK SOFTWARE will also refer to the recommendations in the Code in the version dated 26 May 2010.

The Management and Supervisory Boards at GK SOFTWARE AG declared on 12 April 2012 that the recommendations of the "Government Commission on German Corporate Governance Code" had been satisfied since the release of the last annual statement of compliance in April 2011 with the exceptions noted in the declaration in April 2011 and is being met with the following exceptions.

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

responsibilities normally assumed by the specially appointed committees are handled by the full committee, as the committee has the necessary qualifications to handle these.

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

Report by the Supervisory Board

Uwe Ludwig, Chairman of the Supervisory Board

Dear shareholders,

I am delighted to also be able to speak about fiscal 2011 as a very successful year for GK SOFTWARE AG and present the Supervisory Board's report against this background.

Composition of the Supervisory Board

According to the articles of incorporation, the Supervisory Board consists of three members. In fiscal 2011 they were:

- Uwe Ludwig (Chairman)
- Thomas Bleier (since 16 June 2011 Deputy Chairman)
- Herbert Zinn (since 16 June 2011)
- Heinrich Sprenger (left on 16 June 2011, deputy chairman until that time)

Mr. Ludwig and Mr. Zinn have both been appointed until the end of the annual shareholders' meeting in 2016, while Mr. Thomas Bleier's appointment ends with the conclusion of the annual shareholders' meeting in 2014.

Meetings

The Supervisory Board met for normal sessions on 13 April 2011, 22 August 2011 and 28 November 2011. Following the annual shareholders' meeting on 16 June 2011, the Supervisory Board reconstituted itself on that date after the election of Mr. Herbert Zinn as a member of the Supervisory Board at the annual shareholders' meeting. Decisions were also taken during telephone conferences on 27 July 2011 and 22 August 2011. All the members of the board took part in the normal meetings and the constitutive meeting of the board and representatives of the Management Board were present too.

The members of the Supervisory Board were also regularly in contact with each other outside the meetings – and the Chairman of the Supervisory Board in particularly also maintained contact with the Management Board. Decisions were made during meetings or by a circulation procedure. During its meetings the Supervisory Board received both verbal and written reports from the Management Board about the business and financial situation within the company and about the fundamental business policy. The Management Board provided regular intermediate reports on business developments.

Tasks of the Supervisory Board

The Supervisory Board at GK SOFTWARE AG fulfilled for the fiscal year 2011 the tasks incumbent upon it according to the law, the articles of incorporation, the recommendations of the "German Corporate Government Code" government commission and the Supervisory Board's rules of internal procedure and monitored company managers continually.

The Supervisory Board of GK SOFTWARE AG: from left to right Herbert Zinn, Heinrich Sprenger (Board Member 2001–2011), Thomas Bleier, Uwe Ludwig (Chairman)

The ongoing development of the risk management systems was a constant issue. The Supervisory Board also acquired information about the progress in introducing the security concept and the further establishment of formalized administrative processes. The Supervisory Board welcomed the progress made and the fundamental overhaul of the planning process, the internal accounting system, which have both been started, and the start on revising and combining existing key data systems. The board once again directed its attention at examining the appropriateness of the salaries paid to members of the Management Board. Attention was paid to the way that salaries related to the company's economic situation and conditions existing at other companies, the comparison between the total structure of salaries within GK SOFTWARE and the combination of fixed and variable parts of salaries. There was no need to make any adjustments.

The Supervisory Board can also express satisfaction with the successful reshaping of the Management Board. Messrs. Ronald Scholz and Stephan Kronmüller both resigned from the Management Board at their own request on 31 October 2011. Mr. Kronmüller is remaining at the company as the head of the newly established GK FutureLab. Mr. Scholz is taking up a new professional challenge. The Supervisory Board would like to thank both gentlemen for their many years of service on the Management Board at GK SOFTWARE AG. Messrs. Michael Jaszczyk and Oliver Kantner joined the Management Board as new members on 1 November 2011 and were appointed to the GK SOFTWARE AG Management Board for five years. Mr. Jaszczyk has taken over the tasks as CTO, while Mr. Kantner has become COO.

In carrying out its monitoring work of company managers, the Supervisory Board based its deliberations on the annual budget that was passed for 2011 and received reports from the Management Board particularly concerning the business policy and corporate planning, profitability, the course of business and the major individual measures adopted by the company. The Supervisory Board received verbal reports on the company's state of development in general and operating business in particular at meetings held during the fiscal year for this purpose. The Management Board also supplied the Supervisory Board with information outside the official meetings and this was also discussed and checked by the Supervisory Board.

Corporate Governance

The Supervisory Board and Management Board act in the full knowledge that good corporate governance forms an important basis for the company's success and is in the best interests of shareholders and equity markets. The Management Board and the Supervisory Board issued their annual declaration of compliance in line with Section 161 of the German Stock Companies Act in April 2012. The wording of this is printed in this business report as part of the Corporate Governance report. The Management Board and the Supervisory Board have pledged to the relevant degree to follow the recommendations of the German Corporate Governance Code. No conflicts of interest arose in members of the Supervisory Board during fiscal 2011.

2011 Annual Accounts Audit

The GK SOFTWARE AG annual accounts compiled by the Management Board in line with the rules of the German Commercial Code and the IFRS Consolidated Accounts and each situation report have been audited by the auditing company, Deloitte & Touche GmbH, and were given an unqualified audit certificate. Taking into account these auditing reports, the Supervisory Board has examined the annual accounts compiled by the Management Board, the consolidated accounts, the dependency report, the situation report at GK SOFTWARE AG and the Group and checked the suggestion made by the Management Board for the use of the balance sheet profits. During its meeting on 16 April 2012, the Supervisory Board asked the Management Board to explain the 2011 annual and consolidated accounts and report on profitability, particularly the company's equity, the course of business and the company's situation. All the Supervisory Board members received the necessary documents duly prior to this meeting.

The auditor commented on the Management Board's verbal presentation of the accounts and explained the audit findings using the auditor's reports and answered every question on these reports. The auditor was able to satisfactorily answer all the questions. There are no doubts about the auditor's independence. During its meeting on 16 April 2012, the Supervisory Board approved the annual accounts for GK SOFTWARE AG and authorized the consolidated accounts at GK SOFTWARE. As a result, the annual accounts have been approved. The Supervisory Board also agreed to the Management Board's suggestion on how to use the balance sheet profits.

The Supervisory Board also prepared a report on relations to associated companies in line with Section 312 of the German Stock Companies Act. The auditor checked this and provided a verbal report on the results of his audit during the balance sheet meeting on 16 April 2012. Checks made by the Supervisory Board did not give rise to any reasons for objections to be raised. He did not have any objections to the Management Board's final declaration in his report in line with Section 312 of the German Stock Companies Act.

The Supervisory Board would like to thank the Management Board and every member of staff for their commitment to the company and the work that they have performed and wishes them all further success. Special thanks are also due to Heinrich Sprenger, who was a member of the Supervisory Board for many years and left at the annual shareholders' meeting in 2011.

Schöneck, 16 April 2012

Uwe Ludwig
(Chairman)

GK SOFTWARE AG Shares

Development of GK SOFTWARE shares in comparison to the TecDax
from 3 January 2011 until 31 December 2011, indexed, in percent

Basic data

Basic data	
Securities Identification Number (WKN)	757142
ISIN	DE0007571424
Trading symbol	GKS
GK SOFTWARE AG IPO	19 June 2008
Type of shares	Auf den Inhaber lautende Stammaktien ohne Nennbetrag (Stückaktien)
Trading markets	Frankfurt und XETRA
Market segment	Regulierter Markt (Prime Standard)
Designated Sponsor	ICF Kursmakler AG
Number of shares	1,790,000
Share capital	EUR 1,790,000
Free float	42.49 %
Highest price in 2011	EUR 51.00 (4.January 2011)
Lowest price in 2011	EUR 33.50 (28 September 2011)

Summary/Share Performance

The GK SOFTWARE AG shares listed on the Prime Standard section of the Frankfurt Stock Exchange lost in value in line with the general trends in fiscal 2011, particularly from mid-June onwards, and was not able to recover a significant amount of its value until the fourth quarter. The shares were worth 40.80 euros at the end of the reporting period. This amounted to market capitalization of approx. 73 million euros.

Shareholder Structure

GK SOFTWARE AG has a very stable shareholder base, which is enabling the company to develop in the long term in a sustainable manner. The company had the following shareholder structure on the reporting date on 31 December 2011: The founder and CEO Rainer Gläß directly held 2.95% of the shares. Stephan Kronmüller, also a company founder and the former CTO on the Management Board, directly held 2.23% of the shares. 52.33% of the shares were owned by GK Software Holding GmbH, which was indirectly equally shared by the company partners Rainer Gläß and Stephan Kronmüller. This meant that 42.49% of the shares were in free float on 31 December 2011.

The company was informed about the following holdings in GK SOFTWARE AG, which exceeded or fell below the 3 percent threshold:

- Universal-Investment-Gesellschaft mbH, Frankfurt am Main: fell below the 3 percent

threshold (2.98 percent as per 9 December 2011).
- Mr. Andreas Bremke 3.99 percent (on 16 August 2011)
- Scherzer & Co. AG, Cologne: 5.23 percent (on 6 March 2012)

Directors Dealings in 2011

Stephan Kronmüller, Member of the Board (until 31 Oktober 2011)
Sale: 12.7.2011 2,500 shares at EUR 44.97

André Hergert, Member of the Board
Sale: 30.8.2011 500 shares at EUR 37.12

Herbert Zinn, Member of the Supervisory Board
Sale: 29.11.2011 1,000 shares at EUR 38.50

Investor Relations

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

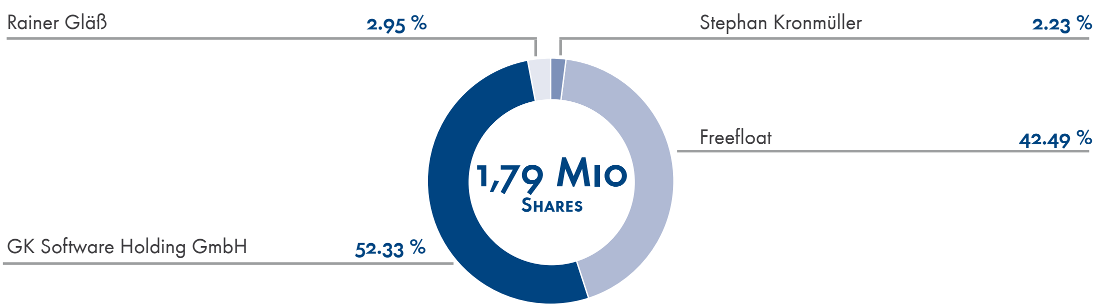
André Hergert, the CFO, is responsible for the investor relations business and he has his own department that reports to him. This guarantees that any enquiries from investors and potential investors are answered immediately.

GK SOFTWARE AG also attaches great importance to providing an ongoing flow of information for the future. Among other things, this means drawing up quarterly, half-yearly and annual business reports in German and English, publishing a financial calendar and promptly publishing ad-hoc reports and corporate news items. The accounting system has been adapted to the international IFRS accounting standards and this meets investors' needs for information. As in previous years, GK SOFTWARE AG is also planning to hold its annual analyst conference for 2012 during the Frankfurt Equity Capital Forum. Investor and press road shows also take place at regular intervals so that the company remains in permanent contact with the capital markets.

The Management Board also prepared a report about relationships to associated companies in line with Section 312 of the German Stock Corporation Act. The auditor checked this and gave a verbal report on the results of his findings to the meeting held on 16 April 2012. Checks made by the Supervisory Board did not lead to any grounds for objections. It did not have any objections to the Management Board's final conclusions in its report prepared according to Section 312 of the German Stock Corporation Act.

The Supervisory Board thanks the Management Board and all staff members for their commitment and the work they have done, wishing them the best of ongoing success for 2012.

Shareholder structure
at GK SOFTWARE AG on 31 Dec. 2011



Consolidated Annual Report

Business Report

Business and General Conditions at GK SOFTWARE

Corporate Structure and Holdings

- Five business locations in Europe and sales branches in the USA and Russia
- Both company founders are actively involved in the company

GK SOFTWARE AG is one of the world's leading technology companies for retail software with a special focus on providing solutions for corporations with local stores. GK SOFTWARE AG and its predecessor company, G&K Datensysteme GmbH, which Rainer Gläß and Stephan Kronmüller founded in 1990 and which became GK SOFTWARE AG in 2001, have now been operating in the market place for 22 years. The company's IPO took place in the Prime Standard segment of the Frankfurt Stock Exchange in 2008.

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

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

GK SOFTWARE AG has another 100 percent subsidiary in Switzerland in the shape of StoreWeaver GmbH. This company has a German base in the state of Saarland in St. Ingbert. StoreWeaver GmbH is responsible for the ongoing conceptual development of the StoreWeaver EE product group and also looks after former customers of Solquest GmbH.

Group structure
of GK SOFTWARE AG

GK Soft GmbH, which was also a 100 percent subsidiary, was set up in Zurich in order to be able to handle the Swiss service business. It was merged with StoreWeaver GmbH, Riehen/Switzerland, on 30 September 2011.

Corporate sales offices were opened in the USA and Russia.

The GK SOFTWARE AG Management Board includes the company founder, Rainer Gläß (CEO) André Hergert (CFO), Michael Jaszczyk (CTO) and Oliver Kantner (COO).

The three-man GK SOFTWARE AG Supervisory Board is led by the Chairman Uwe Ludwig. He has been a member of the Supervisory Board since 2001. The Deputy Chairman Heinrich Sprenger has also been a member of this body since 2001. Thomas Bleier has been part of the Supervisory Board since 2003. Mr. Herbert Zinn was elected as a new member of the Supervisory Board at the 2011 annual shareholders' meeting.

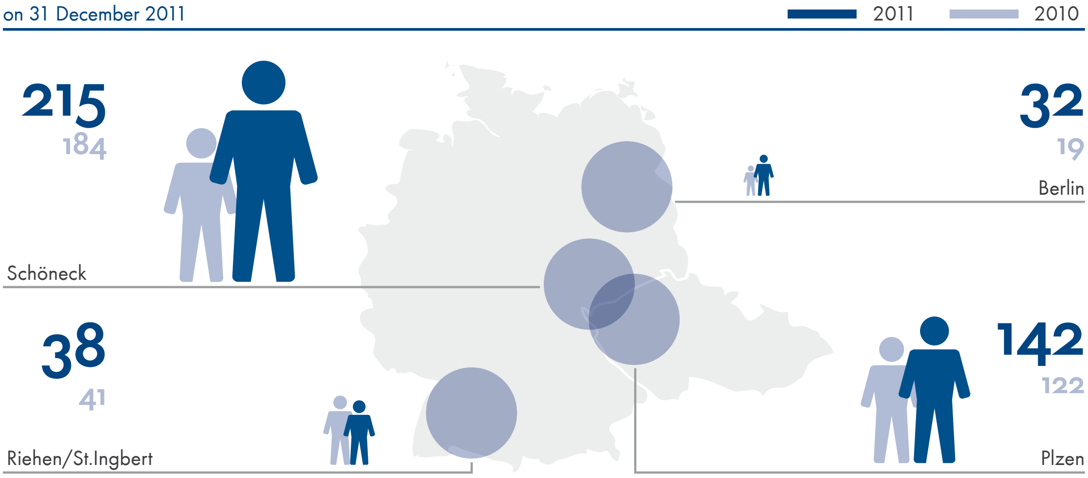
The Management and Supervisory Boards thanked Mr. Heinrich Sprenger, a long-standing member of the Supervisory Board, for his commendable and sacrificial work for the company. Mr. Sprenger did not stand for re-election in 2011 for personal reasons.

Human Resources

- Human resources growth of almost 17 percent to 428 members of staff now
- Opening of branch in Russia
- Trainee and further training programs for the members of staff

428 members of staff were employed within the Group on the reporting date of 31 December 2011 (excluding the Management Board and trainees). This means 62 more members of staff than were employed in the previous year (366). This represents a growth rate of 16.9 percent. The project management, software development and support departments in particular were expanded in

Distribution of employees at group business locations[1]
on 31 December 2011



1 One other employee works at the branch in Moscow and is not shown here.

Products and Services

Customer

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

Goods

The software solutions related to goods were extended to a considerable degree in 2011. They include store merchandise management business processes ranging from inventories to scheduling or stocks and even automatic label printing. GK SOFTWARE has the expertise to dovetail processes in stores with those of a leading central ERP system (like SAP) and make this available in full to mobile units. Solutions for modern advertising in retail stores on a wide variety of digital displays also form part of this.

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

Management

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

Infrastructure

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



fiscal 2011. The majority of the Group's members of staff (215) are employed at corporate headquarters in Schöneck (184 in the previous year). The appropriate space to expand the staff numbers was created with the completion of the third part of the building. The Berlin branch has now 32 members of staff working in the sales & marketing, project and partner management and first-level support (hotline) departments. A start was made on actively hiring software developers in fiscal 2011.

The Czech subsidiary EUROSOFTWARE s.r.o. in Plzen employed 142 members of staff on the reporting date at the end of 2011 (122 in the previous year). Development capacity continued to be increased there in fiscal 2011 too.

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

A branch was opened in Russia during 2011; one member of staff is currently working there. Two sales experts are working for GK SOFTWARE in the USA.

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

Huge investments have been made in training and developing employees for years in order to be able to provide a foundation for and boost sales growth at GK SOFTWARE AG from a human resources point of view too. The successful one-year trainee program designed to deliberately establish qualified employees was continued and two members of staff are participating in this at the moment. Two trainees are also currently employed at GK SOFTWARE AG.

The GK SOFTWARE Software Solutions

- Two mainstay products within the GK/Retail Business Suite
- New GK/Retail Open Scale product line is ready for the market
- New solutions presented for iOS and Android

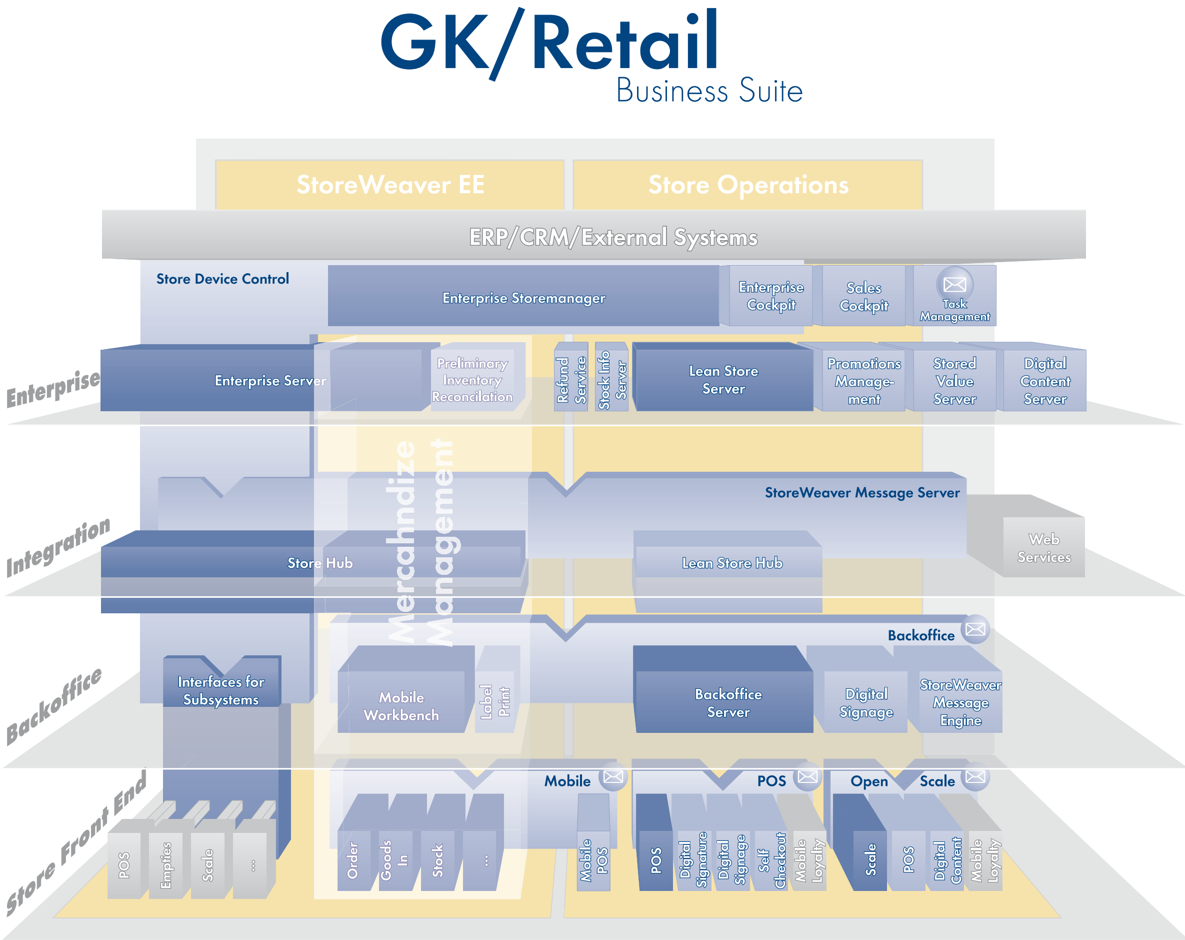
The various GK SOFTWARE products are fully integrated in the GK/Retail Business Suite. They are fully based on Java and open standards and can therefore operate on any kind of hardware and operating system.

GK SOFTWARE is currently selling Version 12 of the GK/Retail Business Suite. The GK/Retail Business Suite is arranged on two main pillars. One of them involves the StoreWeaver Enterprise Edition (EE). The other one covers the Store Operations.

StoreWeaver Enterprise Edition

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

- **GK/Retail Store Device Control** provides the end-to-end link within the complete store peripheral equipment, for instance, tills, scales or automatic empties machines. The software handles the automatic distribution of data to all the systems in a store with a direct link to the leading SAP system. This guarantees that any changes to master data (e.g. prices) are available on the correct system within the store at the right time. At the same time, the software ensures that the central systems are supplied with what is known as transaction data (e.g. sales data). The link for the various subsystems in a store is provided through standardized peripheral heads, on to which solutions from different manufacturers can be docked. The Enterprise Storemanager guarantees the central management of the overall systems landscape. The Enterprise Cockpit handles the monitoring work across the systems. Both solutions can also be used outside the StoreWeaver Enterprise Edition in the field of Store Operations.
  The complete software component is sold by SAP under the name "SAP Store Device Control by GK".
- **GK/Retail Mobile Merchandise Management Processes** covers the store management processes, which can be made available directly to mobile terminals on the



floor of the store or in the stock area. The processes, which can be provided online or offline, rely on a leading central system like SAP. They allow the stores to be linked end-to-end with enterprise headquarters in almost real time and manage all the necessary business processes like deliveries, merchandise planning, inventories or automatic label printing.
This software component is sold by SAP under the name "SAP Offline Mobile Store by GK".

Store Operations

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

- **GK/Retail POS** is the market-leading solution for operating till systems. The application guarantees secure handling for all business processes at tills (POS = point of sale) and provides extensive back office functions for managing money, store administration or reporting purposes. A special edition of this software can also be used for self-checkout systems. SAP sells the software under the name "SAP Point of Sale by GK".
- **GK/Retail Mobile POS** is a new and innovative software solution for till use on devices using the iOS operating system (iPhones, iPods, iPads). The company software handles all the processes available on stationary tills and Parfümerie Douglas is already testing it in a productive environment. Mobile POS is available as specific individual developments for iPods/iPhones and iPads.
- **GK/Retail Open Scale** is a new software solution within the GK/Retail Business Suite. It is based on the same technical concepts as the other software solutions and is a self-contained application for all kinds of open PC scales. It

Michael Jaszczyk, CTO

enables the retail sector to use end-to-end IT structures and be free to select scales from any hardware supplier.This software has been certified for use by the PTB (Prüftechnische Bundesanstalt – Germany's National Metrology Institute).

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

The SQRS Software Package

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

Product Development/Certifications

Four minor updates for GK/Retail 12 were released during fiscal 2011 and they have expanded the standard product in line with the road map by providing solution components, functions and interfaces to subsystems.

More new modules have been developed in addition to the new Mobile POS and Open Scale software and fundamental technological revision work has also taken place. The end-to-end restructuring of the software platform and the introduction of the new GUI (Graphical User Interface) were completed for all the modules. They now have a unified, ergonomic and efficient look and feel and this was achieved in conjunction with experienced GUI designers. New components have also been introduced like a central receipt database for corporate-wide enquiries or a price checker link, new versions e.g. of the Sale Cockpit and other taxation law features in line with the roadmap. More specialist requirements from individual projects like bakery functions have been directly incorporated in the standard product in order to ensure that they are immediately available for other projects. Important conditions have been created by using many defined user exits – e.g. for importing and exporting data – so that third parties can also expand the GK SOFTWARE solutions by using special customized adaptations.

Services

GK SOFTWARE AG not only provides products, but also extensive services. For example, they include analysis and advisory services when implementing new store solutions or adapting solutions that have already been introduced to the expanded demands of customers, like the integration of new bonus systems in till systems. The company also assumes responsibility for producing the documentation within projects and training people to handle the software products and providing the relevant project management services. The conditions were created during the reporting period in order to train implementation partners intensively in future so that they can then support the introduction of GK/Retail. These partners will primarily be able to handle the basic parameterization. But GK SOFTWARE will continue to handle development work in the form of modifications (change requests).

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

Research and Development

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

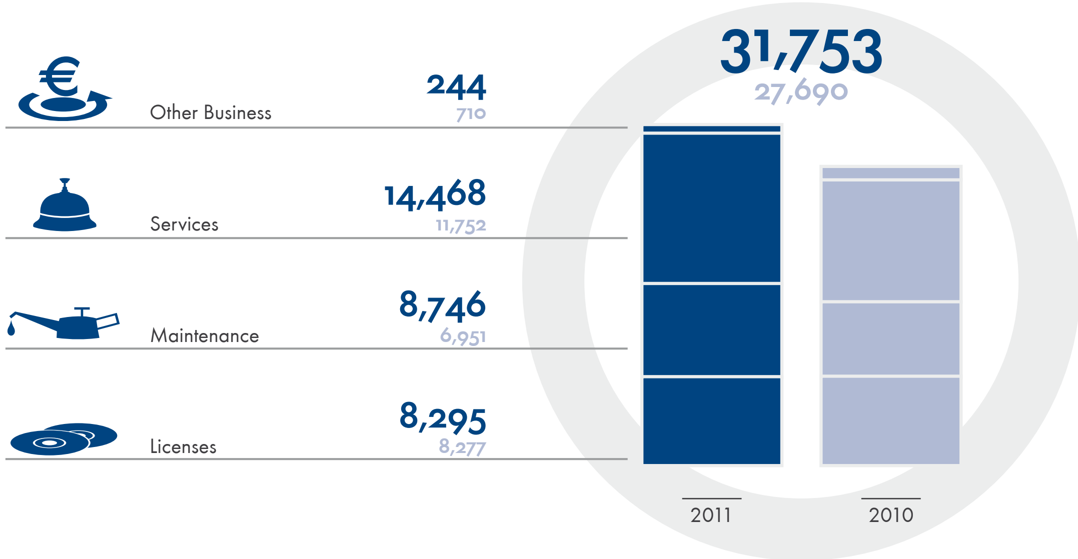
The ongoing developing of existing products and the development of new software solutions have been the corporate group´s major focus during the past few fiscal years and they will continue to be a strategic competitive factor in the future too. This is reflected in the continuing growth in the number of employees in this department. The main part of the research and development department is based at the EUROSOFTWARE s.r.o. subsidiary in Plzen. Currently 15 software developers alone are working to exclusively grapple with the latest trends in the software market in order to develop new, ground-breaking products from these. In order to create independent scope for development alongside the direct research and development activities on direct products and projects, the company has set up the GK Futurelab, which is being headed by Stephan Kronmüller. Highly qualified experts are testing new technologies here, examining trends and new processes and are providing the framework for GK SOFTWARE to continue to act as a powerhouse for innovations for retail IT.
Other impulses for research work come from company managers, sales & marketing, partners and directly from GK SOFTWARE AG's customers.

The capitalized development costs amounted to 1,489 K euros (649 K euros in the previous year).

Oliver Kantner, COO

Development of sales distribution
between 2010 and 2011 in K EUR

2011 2010



Research costs amounting to 615 K euros (157 K euros in the previous year) were entered immediately as expenditure during fiscal 2011.

Customers and projects

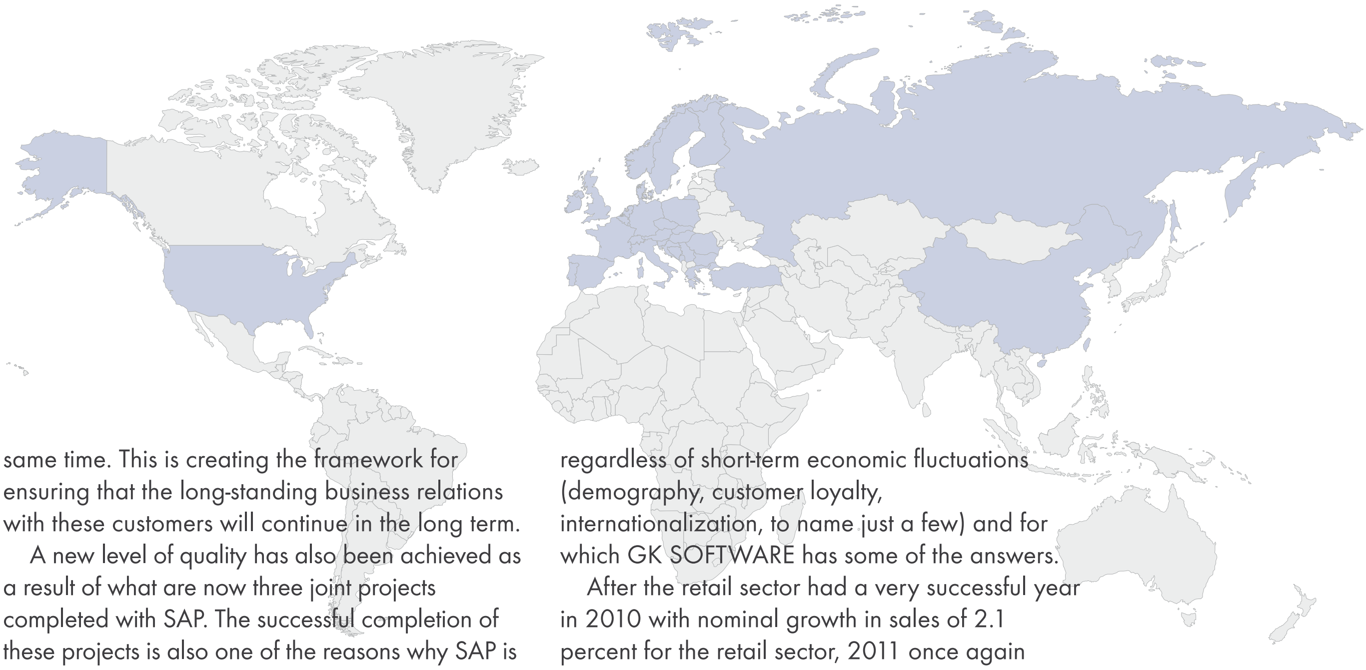
- Gaining new major international fashion projects
- First international project in the strongly growing market for pet products
- Massive expansion in the volume of installed software systems

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

Important new projects in 2011 – a summary:

- Leading international manufacturer of sports items based in Herzogenaurach (more than 2,000 stores around the globe)
- Fressnapf (more than 1,000 markets in many European countries)
- International fashion retailer (over 700 stores in more than two dozen countries)
- Launch of pilot scheme in LUNAR Project at two more EDEKA regional companies
- Valora (more than 2,700 stores in various formats) – after the end of the reporting period

Mass rollouts in several major projects dominated business in existing projects in fiscal 2011. GK/Retail was installed on more than 35,000 systems in many countries and the initial phase of several projects was successfully completed as a result. Customers in several ongoing major projects are also migrating to the Major Release 12 at the



same time. This is creating the framework for ensuring that the long-standing business relations with these customers will continue in the long term.

A new level of quality has also been achieved as a result of what are now three joint projects completed with SAP. The successful completion of these projects is also one of the reasons why SAP is also expanding sales to other regions and this is significantly expanding GK SOFTWARE's potential.

Market and Competitive Environment

- Retail sector with record results in 2011 – sales rose to 414 billion euros
- Positive forecast by the retail sector association for 2012
- Great need for investments continues in the retail sector

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

After the retail sector had a very successful year in 2010 with nominal growth in sales of 2.1 percent for the retail sector, 2011 once again witnessed significant growth despite the difficult global economic situation. Sales (disregarding the vehicle sector, gas stations, fuels and drugstores) rose by 2.4 percent and reached a new record figure of 414.4 billion euros.[1] This made 2011 the most successful year in the history of the German retail sector. It grew slightly less than the country's gross domestic product, which rose by approx. 3 percent in real terms when compared to the previous year. The significance of the retail sector for the overall economy is clear from the fact that it is the third largest business sector and its contribution to Germany's gross domestic product in 2011 was more than 16 percent.

The fundamental view that the retail sector is overall a very stable sector was confirmed once again by last year, as growth is moderate even in peak performance years. A detailed study naturally will reveal internal differences. The food

1 http://www.einzelhandel.de/pb/site/hde/get/params_Dattachment/1484838/GrafikenPK.pdf

Growth of German retail
between 2001 and 2011 in Billion EUR
(Source: Destatis; HDE calculations)

sector is very resilient, while other sectors depend more on economic developments.[1]

The HDE (the German Retail Federation), which is known for its cautious forecasts, is expecting a continuation of the upward trend and growth of 1.5 percent this year.[2] Important consumer-relevant growth drivers remain intact. They include a stable jobs market and a positive consumer climate. But the HDE is also expecting consumer prices to rise more slowly than in 2011.[3] This will have positive effects on retail sales in conjunction with the expected wage increases during 2012. But it is not possible to assess how potentially negative factors like the ongoing crisis in the eurozone countries or the escalation of the situation in the Gulf region might affect business.

Retailers continue to remain positive about their business prospects in comparison to the previous year. The current "Handelskix" retailer survey for 2012 shows that positive and negative estimates balance each other out when it comes to assessing the current business situation. One third of the companies questioned categorized their business situation as either positive or negative in February. However, the index for the 12-month assessment is now well back in positive territory at 121 points after it hit a low of 102 points in December 2011.[4]

This corresponds to the current consumer mood detected by the GfK market research company, which describes the mood as stable. Economic expectations and the trend to make purchases fell slightly – but still remained at a very high level overall. On the other hand, expectations about increases in income have risen markedly.[5] Overall, the GfK detected a slight, but constant upward trend in the general indicator for the consumer climate in March 2012 and it assumes that consumption will increase in real terms by approx. one percent this year, which would be very important for the overall economic situation and the specific situation within the retail sector.

Based on these developments, experts do not expect IT investments in the retail sector to fall. However, the Ernst&Young retail barometer published in October 2011 showed that only 20

1 Ibid, Charts zur Jahrespressekonferenz 2012 des HDE, Slide 4.
2 Ibid, Charts zur Jahrespressekonferenz 2012 des HDE, Slide 14.
3 Jahres-Pressekonferenz des HDE am 31. Januar 2012, Rede des HDE-Hauptgeschäftsführers Stefan Genth, http://www.einzelhandel.de/pb/site/hde/get/params_Dattachment/1484832/Rede_Genth_JahresPK.pdf
4 http://www.handelskix.de/app/download/5977014375/HANDELSkix_Ergebnisse_Februar+2012.pdf?t=1330594267
5 http://www.gfk.com/group/press_information/press_releases/009476/index.de.html

André Hergert, CFO

percent of retailers are still expecting their budgets to rise during 2012.[1]

Overall, investment needs within the retail sector remain high, as highlighted by the latest study published by the EHI Retail Institute and entitled "Till Systems 2012 – Factors, Background Information and Prospects".[2] The age of the software in use has risen again – almost 25 percent of the software solutions are more than 10 years old – and about one quarter of retailers are planning to issue calls for tenders or are already in the process of doing so.[3] Issues like touchscreens, real time links, mobile couponing or touchless payments, where GK SOFTWARE has outstanding expertise, are continuing to gain in importance. Even the self-checkouts, which seem to be moving more lowly in Germany than in other developed markets, slowly seem to be picking up speed.

These forecasts, which are more positive than negative overall, signify that the prospects for providers of retail IT continue to be good in 2012. However, they can be hugely impacted by factors unrelated to the sector like the crisis in several eurozone countries or the escalation of the situation in Iran. For example, a failure of the rescue packages for Greece or further strong rises in the price of oil would hinder growth.

However, as long as the situation in Germany overall and particularly in the retail sector continues to be stable, the situation for GK SOFTWARE AG remains positive, as the company can normally benefit from the retail sector's IT budgets, which are continuing at a high level. A general recovery of the economy in Europe and the USA would also be a fundamental precondition for ongoing business developments at GK SOFTWARE in all the markets that it is actively targeting. At the same time, this would provide favorable conditions for the international sales of GK SOFTWARE solutions through our partner companies too.

1 http://www.ey.com/Publication/vwLUAssets/Ernst_and_Young_Handelsbarometer_Oktober_2011/$FILE/Ernst_and_Young_Handelsbarometer_Oktober_2011.pdf
2 EHI Retail Institute, Kassensysteme 2012, Köln 2012.
3 Ibid, S. 30f

GK SOFTWARE continues to assume that investments in new systems, which are required in the short and medium term, will provide sales potential in Germany and the other markets that it is actively targeting in the future too.

By expanding its sales activities to include the USA, Great Britain and Russia, by intensifying its partnership business and as a result of receiving enquiries from markets that it is not actively targeting, the company has continued to increase its sales potential during the last two years. To the degree that the global economy recovers, foreign retailers, some of which have been more affected by the financial market crisis, will increasingly invest in their IT systems again

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

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

GK SOFTWARE is delighted to be able to look back on its eighth year of uninterrupted growth in its corporate history at the end of fiscal 2011. Sales once again increased by almost 15 percent to a figure of 31.75 million euros, following a figure of 27.69 million euros in the previous year. The company was also able to maintain its profitability at the levels achieved during the last few years. Earnings before taxes and interest (EBIT) totaled 6.65 million euros following a figure of 6.43 million euros in the previous year. As a result, the EBIT margin based on sales amounted to 21 percent, slightly exceeding the forecast range.

Business developments for our core GK/Retail software were particularly pleasing. Sales here rose from 24.38 million euros in the previous year by 5.05 million euros or more than 20 percent to 29.43 million euros. The reasons for this further improvement is an expanded customer base, and the intensification of existing customer relations. As a result, it was possible to gain four new customer projects in 2011, which firstly underline the attractiveness of the GK SOFTWARE solutions, and secondly emphasize the opportunities that are arising for the Group as a result of its close partnership with SAP AG. The company was able to register new follow-up orders from existing customers and they provide strong evidence of the stability of relationships with existing customers.

In contrast to the company's main software solutions, developments in the business associated with "SQRS" declined, as expected; this line is being operated as ongoing business arising from obligations to existing customers. Sales here fell from 3.31 million euros in 2010 to 2.33 million euros during the reporting year. This represents a decline of 0.98 million euros or almost 30 percent.

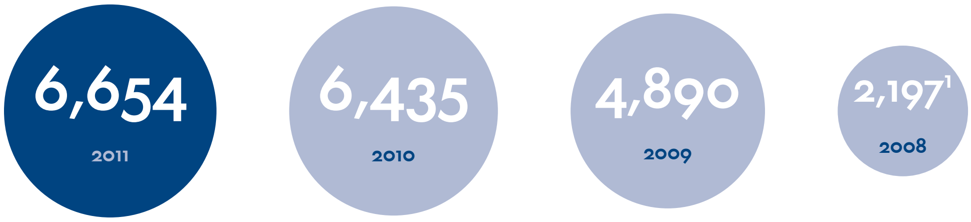
Earnings Situation

- The most successful year: sales of 31.8 million euros; Group profits of approx. 4.6 million euros
- Significant ongoing growth in 2011: sales increase of 14.7 percent
- EBIT margin on sales of 21.0 percent

Total sales within the Group rose from 27.69 million euros to 31.75 million euros or by 14.7 percent. Our core GK/Retail software products accounted for 29.43 million euros of this figure. The increase of 5.05 million euros was roughly one fifth of the previous year's figure of 24.38 million euros. The volume of the SQRS business at 2.33 million euros was 29.7 percent or 0.98 million euros lower than the previous year's figure, but was in line with expectations adapted to annual developments. This segment of the business

K EUR	2011		2010		Change	
Sales with						
GK/Retail	29,426	92.7%	24,380	88.0%	5,046	20.7%
SQRS	2,327	7.3%	3,310	12.0%	(983)	(29.7%)
Total	**31,753**	**100.0%**	**27,690**	**100.0%**	**4,063**	**14.7%**
Services						
of which	14,468	45.6%	11,752	42.4%	2,716	23.1%
GK/Retail	13,707	43.2%	10,335	37.3%	3,372	32.6%
SQRS	761	2.4%	1,417	5.1%	(656)	(46.3%)
Maintenance						
of which	8,746	27.5%	6,951	25.1%	1,795	25.8%
GK/Retail	7,201	22.7%	5,461	19.7%	1,740	31.9%
SQRS	1,545	4.9%	1,490	5.4%	55	3.7%
Licences						
of which	8,295	26.1%	8,277	29.9%	18	0.2%
GK/Retail	8,295	26.1%	7,981	28.8%	314	3.9%
SQRS	–	0.0%	296	1.1%	(296)	(100.0%)
Other business	244	0.8%	710	2.6%	−466	−65.6%
GK/Retail	223	0.7%	603	2.2%	−380	−63.0%
SQRS	21	0.1%	107	0.4%	−86	−80.4%

Development of the EBIT
between 2008 and 2011 in K EUR



1 Inclusive of costs of equity capital.

accounted for 7.3 percent of total sales, following a figure of 12 percent in the previous year. The resources no longer required here were very welcome in the GK/Retail segment.

If we look at sales according to the type of work or services, the lion's share is still achieved as a result of the services required to introduce or adapt the software solutions at customer premises. The sales revenues recorded in this way rose from 11.75 million euros to a figure of 14.47 million euros (+2.72 million euros or +23.1 percent). This type of sales increased by as much as 3.37 million euros in the GK/Retail business segment, while services sales in the SQRS business segment declined by 0.66 million euros on account of the expected reticence on the part of SQRS customers to continue investing in their systems. Apart from the elimination of the one-off licensing revenues for SQRS received in 2010, this development fully explains the decline in sales in this business segment.

The significance of maintenance revenues is continuing to increase in both absolute and relative terms in line with expectations. While revenues for maintenance services amounted to sales of 6.95 million euros in fiscal 2010, this figure rose by 1.80 million euros (+25.8 percent) to 8.75 million euros in fiscal 2011. The sales level of the previous year was maintained in the SQRS business segment – in fact, there was even a slight increase of 0.06 million euros from a figure of 1.49 million euros in 2010 to 1.55 million euros in 2011. However, its relative significance continued to decline because of the strong increase in maintenance revenues in the GK/Retail segment; so the share of maintenance sales arising from SQRS accounted for 4.9 percent of total sales, following a figure of 5.4 percent in the previous year. The sales from maintenance services for GK/Retail rose significantly from 5.46 million euros in 2010 by more than 30 percent or 1.74 million euros to a figure of 7.20 million euros on account of the large number of systems that have been installed.

Licensing revenues only rose marginally in fiscal 2011 compared to the figures in 2010 and amounted to 8.30 million euros, following a figure of 8.28 million euros in the previous year. Licensing revenues in the GK/Retail business segment rose by 0.31 million euros or +3.9 percent to a figure of 8.30 million euros, while it was not possible to repeat the licensing revenues of the previous year in the SQRS business segment, as expected. They declined by 0.3 million euros and therefore there were no revenues of this kind to be reported.

Other sales revenues, which totaled 0.24 million euros and accounted for just 0.8 percent of total sales, were of minor significance. Revenues in the previous year here totaled 0.71 million euros. Other sales revenues mainly cover revenues generated by the procurement of hardware for customers.

Fiscal 2011 was marked by significant investments in GK SOFTWARE products and solutions. Among others, the GK Open Scale product was developed, major investments were made in the solutions for SAP and existing software solutions continued to undergo further development. As a result, own work capitalized during the reporting year amounted to 1.49 million euros, following a figure of 0.65 million euros in the previous year. This meant that operating performance rose by 4.90 million euros from 28.34 million euros to 33.24 million euros.

Other operating revenues declined by 0.64 million euros to 0.73 million euros during the reporting year. The main reason for this was the decline in reversal of provisions by −0.25 million euros. A further −0.11 million euros was attributed to the lower need for write-ups for accounts receivable. The increase in total operating revenues for the group rose by 14.4 percent compared to the previous year and the total operating revenues now totaled 33.97 million euros.

The significant increase in the operating performance made it necessary to expand corporate capacities in the appropriate manner. As a result, spending on human resources rose by 3.76 million euros to 18.60 million euros. If we remove the one-off effects from developments, this figure rose by +19.5 percent both as a result of the rise in operating performance (+17.3 percent) and the rise in the number of members of staff employed within the Group (+22.8 percent) and it is also an expression of the major investments made in the software solutions.

Depreciation and amortization amounted to 1.95 million euros in the reporting year, following a figure of 1.55 million euros in the previous year. This increase of 0.40 million euros (+25.8 percent) is primarily due to the increase in depreciation in operating and business equipment (by 0.18 million euros to 0.50 million euros) and the amortization on own work capitalized by 0.23 million euros to a figure of 0.98 million euros. 0.15 million euros of the latter increase was due to capitalization during the reporting year.

K EUR	2011		2010		Change
Sales	31,753	93.5%	27,690	93.2%	+14.7%
Own work capitalized	1,489	4.4%	649	2.2%	129.5%
Operating revenues	**33,242**	**97.9%**	**28,339**	**95.4%**	**17.3%**
Other operating revenues	729	2.1%	1,368	4.6%	(46.7%)
Total operating revenues	**33,971**	**100.0%**	**29,707**	**100.00%**	**14.4%**

Other operating expenditure amounted to 6.16 million euros and therefore exceeded the previous year's figure of 5.34 million euros by 0.81 million euros. This increase of +15.2 percent was far less than the increase in operating performance. It was primarily due to the blocks of expenditure required to expand business operations. Expenditure on sales equipment rose by 0.20 million euros, travel expenses by 0.30 million euros and the expenditure on gaining and retaining employees by 0.21 million euros. A further 0.31 million euros was set aside for warranty purposes as special expenditure for projects. But legal advice and public listing costs were far lower and declined by 0.13 million euros and 0.19 million euros respectively.

Expenditure on purchased goods and services declined from 1.54 million euros by 0.93 million euros to a figure of 0.61 million euros during the reporting year. 0.36 million euros of this significant decline was due to the decreasing use of goods in the hardware business and 0.57 million euros to the reduced use of purchased services in making available project services. The latter decline accords with the general principle at GK SOFTWARE of only using outside services in order to cope with peaks in demand or only using those skills and abilities that are not required on a permanent basis.

As a result, GK SOFTWARE generated earnings before taxes and interest (EBIT) of 6.65 million euros.

This figure exceeds that of the previous year by 0.22 million euros and is therefore 3.4 percent higher.

K EUR	31.12.2011		31.12.2010		Change
EBIT	**6,654**	**21.0%** [1]	**6,435**	**23.2%** [1]	**3.4%**
EBT	**6,569**	**20.7%** [1]	**6,307**	**22.8%** [1]	**4.2%**
Group result	**4,564**	**14.4%** [1]	**4,471**	**16.1%** [1]	**2.1%**

1 Related to sales

The financial results amounted to 0.09 million euros during the reporting year and were therefore 0.04 million euros higher than the previous year's figure of 0.13 million euros. Expenditure on interest, which was mainly due to funding for the buildings at GK SOFTWARE headquarters and the purchase of Solquest GmbH, were 0.03 million euros lower than the previous year's figure, while income from interest – mainly due to the larger amounts of cash and cash equivalents above the annual average figure – were 0.02 million euros higher than the previous year's figure.

This created results before income tax of 6.57 million euros – and therefore results that were 0.26 million euros higher than in the previous year (+4.2 percent). After taxes, the Group annual net income amounted to 4.56 million euros, following a figure of 4.47 million euros in the previous year.

Assets Situation

The Group balance sheet total amounted to 43.47 million euros on the reporting date in the reporting year and was therefore 1.33 million euros lower than the comparable figure in the previous year of 44.80 million euros. This decline on the assets side was primarily due to the fall in current assets (disregarding cash and cash equivalents) of 2.18 million euros to a figure of 15.49 million euros. On the other hand, non-current assets tied to the company rose by 0.43 million euros to 14.12 million euros, while cash and cash equivalents at 13.86 million euros were 0.42 million euros higher than the figure in the previous year. On the funding side, the decline in non-current debts by 0.92 million euros was the major factor affecting the fall in the balance sheet total, while the decline in current liabilities of 4.31 million euros to a figure of 8.62 million euros was compensated for by an increase in equity capital of almost the same magnitude, i.e. by 3.90 million euros to 28.23 million euros.

K EUR	2011		2010		Change
Non-current assets	14,125	32.5%	13,695	30.6%	3.1%
Current assets or cash and cash equivalents	15,490	35.6%	17,668	39.4%	(12.3%)
Cash and cash equivalents	13,859	31.9%	13,442	30.0%	3.1%
Assets	**43,475**	**100.0%**	**44,805**	**100.0%**	**(3.0%)**
Equity	28,231	64.9%	24,332	54.3%	16.0%
Non-current liabilities	6,623	15.2%	7,541	16.8%	(12.2%)
Current liabilities	8,621	19.8%	12,932	28.9%	(33.3%)
Liabilities	**43,475**	**100.0%**	**44,805**	**100.0%**	**(3.0%)**

The decline in current assets was primarily dominated by the fall in accounts receivable arising from progress made on goods and services by 4.35 million euros to 0.64 million euros. The reason for this was the completion of various projects. On the other hand, trade accounts receivable rose by 2.18 million euros to 11.30 million euros on account of aggregate invoices in

December 2011. The invoices triggering this high total figure in trade accounts receivable had been largely settled at the time when this report was prepared.

Supplies of cash and cash equivalents amounting to 13.86 million euros exceeded the interest-bearing liabilities amounting to 5.24 million euros by 8.62 million euros. The development of cash and cash equivalent resources is presented in the analysis of the financial situation.

Developments in non-current assets were primarily justified by the increase in own work capitalized by 0.51 million euros caused by the extensive investments. They are shown as a figure of 2.36 million euros. There was another increase in stocks of office and business equipment. This amounted to 0.10 million euros and was caused by the equipment needed for new workplaces as a result of the growth in the number of corporate employees and investments in IT infrastructure. This figure is countered by the decline in the value of customer relations procured as part of the acquisition of Solquest GmbH by 0.13 million euros to a figure of 0.33 million euros based on scheduled amortization.

The increase in the balance sheet equity by 3.90 million euros was based on the annual net income (4.56 million euros) minus the dividend payment of 0.90 million euros carried out in June in line with the decision taken at the 2011 annual shareholders' meeting. Capital reserves also rose by 0.23 million euros on account of the accounting procedures in the share option program.

Developments in non-current liabilities were explained by the decline in non-current bank liabilities as part of the contractual repayment and the reclassification of liabilities during within one year into current liabilities to the tune of 0.83 million euros, so providing a figure of 4.41 million euros. The increase in deferred tax assets and liabilities by 0.12 million euros, the decline in deferred subsidies from the public sector by −0.06 million euros and the provisions for pensions by −0.14 million euros complete the picture.

The dominant effect on developments in current liabilities was the decline in advance payments received by 5.63 million euros to 0.86 million euros. This fall was due to the settlement and completion of project services. On the other hand, other liabilities rose by 0.92 million euros, which in turn was due to the increase in liabilities arising from wages and salaries by 1.65 million euros and the increase in liabilities from other taxes by 0.26 million euros, while other liabilities fell by −0.49 million euros at the same time. In other respects, other current provisions rose by 0.33 million euros on account of the increase in provisions for warranties based on the broader business operations, current bank liabilities rose by 0.09 million euros on account of due dates for outstanding non-current loans now falling within the current period according to schedule and income tax liabilities increased by 0.12 million euros, while trade accounts payable declined by 0.15 million euros.

Financial Situation

The cash flow from operating business in the narrower sense – i.e. without the change in net current assets – increased from 7.99 million euros in the previous year to 8.76 million euros, i.e. by 0.77 million euros. The major driving forces behind this development were the increase in the annual results (+0.09 million euros), the income tax on the expenditure side that rose accordingly (+0.16 million euros) and the amortization of assets entered in the accounts (+0.40 million euros).

The changes in net current assets relating to the reporting date weighed on the operating cash flow in the narrower sense at 2.57 million euros; the liability had amounted to 3.31 million euros in the previous year. The decline in advance payments received (−5.63 million euros – while there was an increase of 4.25 million euros in the previous year) weighed on the figures, while the development of accounts receivable and other liabilities eased the cash flow by 2.87 million euros. Debits of 7.45 million euros had accrued in this area in the previous year.

The balance of interest payments and the income tax needing to be paid weighed on the operating cash flow during the reporting year by 1.54 million euros, following a figure of 3.02 million euros in the previous year. Overall, this resulted in a net inflow of funds from operating business amounting to 4.78 million euros, so that it was possible to exceed the previous year's figure of 1.67 million euros by 3.11 million euros.

The Group's investment activities during the reporting year had almost exactly the same effect on the flow of cash and cash equivalents as in the previous year. The net outgoings of cash and cash equivalents from investment operations amounted to 2.69 million euros during the reporting year, following a figure of 2.71 million euros in the previous year.

After funds amounting to 3.84 million euros had accrued for the Group companies through funding activities as a result of the increase in equity carried out at GK SOFTWARE AG (6.25 million euros), dividend payments of 0.90 million euros (1.67 million euros in the previous year) and repayments of bank liabilities of 0.74 million euros (the same as in the previous year) led to the outflow of cash and cash equivalents to the tune of 1.64 million euros.

Overall, funds totaling 0.42 million euros accrued for GK SOFTWARE during the year, so that the supplies of cash and cash equivalents amounted to 13.86 million euros on the balance sheet reporting date.

Report on Key Events after the Balance Sheet Date

SAP managed to gain Valora Retail, one of the leading European operators of kiosks and other small shop units at locations used by large numbers of people, as a customer for SAP Point-of-Sale by GK in February 2012. As a result, several thousand stores operating in various different sales channels will be equipped with the GK SOFTWARE till solution. Valora is the second-largest micro-retailer in Europe.

The new software for open PC-based retail scales, GK/Retail Open Scale, also received certification from the PTB (Prüftechnische Bundesanstalt – Germany's National Metrology Institute) in February. This was necessary before putting the new software into productive use. The Management Board gave the go-ahead for sales of Open Scale both for the company and partners once the PTB certification had been issued. The Management Board is expecting further growth in sales potential for GK SOFTWARE as a result.

Report on Risks and Prospects at GK SOFTWARE

Risks

GK SOFTWARE deliberately takes entrepreneurial risks in order to be able to benefit from the opportunities presented by the market in an appropriate manner. A risk management system was introduced during the past few years to recognize, manage and minimize the risks at an early stage. Among other things, the Management Board meets once a month to identify possible risks and introduce countermeasures. The Supervisory Board is informed of the results of these discussions. The risk management system is being continually updated.

One major risk – which cannot be influenced by the Group – involves **business developments at customers** of GK SOFTWARE on account of the **development of the general economy** and consumer sentiment. The actual developments in fiscal 2011 and the prospects for fiscal 2012 have been dominated by a generally calm, but constant growth process in the global economy. However, the high level of uncertainty in the financial markets with regard to the sovereign debt crisis within the eurozone is not only dominating the headlines in the economic press. The effects of the crisis in the Gulf region are also completely unclear. The actual ongoing developments in these situations and the uncertainties associated with them will have an effect on economic developments in Europe to a degree that cannot yet be determined.

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

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

One major argument for the successful sale of GK SOFTWARE solutions and what are in many cases long-standing customer relations is the consistently successful completion of customer projects in the past. However, **any disasters 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 ongoing existence. As a result, the relevant project managers inform the responsible members of the Management Board about possible risks during the course of ongoing projects in order to enable an appropriate and timely response to these kinds of risks. GK SOFTWARE views the degree of customer satisfaction and the number of new customer contacts as an important indicator for assessing risks. These two factors are therefore subject to particular monitoring and are regularly checked as part of the sales controlling processes.

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

The ongoing **consolidation of the retail sector** market may lead to a reduction in the number of store networks in the short term, so that demand from the retail sector could rise. The retail sector in Germany is generally dominated by price wars. Retail companies therefore seek to pass on the resulting pressure on prices to their suppliers and contractual partners. This process is also felt for investments in IT equipment and may have an effect on producers of retail sector software. As

GK SOFTWARE AG, however, provides solutions for a highly central function within retail sector groups, these risks are not classified as a threat to the company's existence.

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

So GK SOFTWARE has set up a partner program with certification for integration partners and so-called project coaches and this is designed to guarantee the quality of project operations.

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

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

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

The financial risks not only involve **loan default risks**, but also **liquidity** and **market risks**. The maximum loan default risk corresponds to the carrying amount of the financial assets. However, the Management Board does not expect any loan defaults, which are not covered by the (slight) write-downs entered in the accounts, on account of its experience and ongoing contacts with debtors (our customers). In the light of the group's liquidity situation with a large surplus of cash and cash equivalents over and above liabilities with banks and other interest-bearing liabilities, the Management Board has not identified any **liquidity risks**.

The following can be said with regard to identifiable market risks like **currency** or **interest risks**: The **currency risk** that the Group faces is very low because of the limited number of accounts receivable and accounts payable issued in foreign currencies – i.e. Czech crowns (CZK), Swiss francs (CHF) and Russian rubles (RUB). They are listed in sections 3.3., 3.6., 3.14. and 3.17. Because of the low level of exposure, no currency risks need to be reported.

As far as **interest risks** are concerned, it must be said that all the financing instruments are all current, with the exception of the loans that have been taken out. So no interest risks need to be reported. The investment loans taken out before 1 January 2009 are guaranteed by means of hedging through interest rate capping tools to guarantee the interest conditions that have been agreed to. No guarantee of interest levels has been secured for the loans taken out during the course of fiscal 2009 because of the current capital market situation. However, the company will continue to monitor the situation and, if necessary, will adopt measures. No major risk is expected on account of the very conservative investment policy for existing cash and cash equivalents based on the principle of maintaining capital in order to manage all the financial assets and liabilities, as it is possible to respond to any changes in interest on credit quickly because the assets are only invested on a short-term basis. In the light of this, the Management Board has not identified any interest risks that need to be reported. There are no other risk categories – because of the type of financial instruments used. There is an assessment of the currency and interest risk in Section 7.1. of the notes on the consolidated accounts.

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

The Management Board believed that there was no risk that could be called a threat to GK SOFTWARE's existence at the end of fiscal 2011.

Opportunities

There are growth opportunities for the consolidated group both in Germany and abroad. The issues targeted by the products of GK SOFTWARE AG are key strategic IT projects that are high on the list of priorities at many retail companies. In order to be a success in the international market place, the consolidated group is well placed with plenty of good references from the German retail sector and a technically well-developed product. GK SOFTWARE AG products are already well represented on the international market and are being used at more than 126,000 POS units (an increase of approx. 35 percent over the previous year) in 26,500 stores in 34 countries. GK SOFTWARE AG also has several major partners with excellent networks in the retail sector. This should make it easier to gain access to new customers in international markets like the USA or Asia. The consolidated group can make use of the experience that it has gained with its German customers, as the solutions have already been successfully introduced in 34 countries and therefore can be quickly transferred to foreign customers.

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

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

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

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

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

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

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

The Group accounts and the accounts for the individual companies are organized and handled in-house. GK SOFTWARE AG completes the accounts of the German subsidiaries or branches of subsidiaries as a service. The financial statements for the foreign Group companies are handled locally. The local annual accounts are then consolidated with the parent company's accounts by making suitable adjustments. The wage and salary accounts for the German companies and branches of the foreign subsidiaries were handled by a services company during fiscal 2011. The wage and salary accounts for the German companies have been handled by GK SOFTWARE AG since the beginning of fiscal 2012.

The accounts of the individual companies and the Group are handled with IT support and displayed on Microsoft Navision. The technical equipment and the number of people working in the department are arranged in such a way that it can complete its tasks in line with the size of company.

Outlook

Based on the information available so far, the Management Board is expecting the Group's financial and earnings situation to continue to improve as a result of renewed expansion of the business during fiscal 2012 and it believes that there are no expected developments in the financial situation that could pose a risk to the Group's viability. This assessment is, however, subject to the effects of developments, which the company is unable to influence, whether they are expected or come as a surprise, and they could have more than a minor effect on this forecast.

The pathway pursued during the last few years has strengthened the conviction of the Management Board that the strategy followed so far of placing the company business on a broader geographical footing and penetrating deeper into the domestic market at the same time is a successful approach. We therefore intend to continue to increase the share of sales made to companies, which have their management headquarters outside Germany, and at the same time serve our domestic market in Germany in a better and more comprehensive way by expanding into other retail segments not served so far and deepening business relations in sectors that have already been opened up.

If we observe the estimates made about the development of the overall economy and the retail

Other Information According to Section 315 of the German Commercial Code

sector, it is probable that we will be able to expand our sales in 2012. The Management Board therefore assumes that it will be able to maintain profitability levels within the target corridor of an EBIT margin of 18 – 20 percent.

If this development proves to be realistic, the Management Board is expecting to be able to continue to expand the GK/Retail business and sales will grow in line with this. The company is aiming to grow and maintain the profitability levels achieved during the last few years with an EBIT margin of approx. 18.5 percent related to sales. This kind of development could be negatively affected to a considerable degree by what is still an uncertain situation in the eurozone. If the overall economy gets into difficulties, it is possible that the retail sector will clearly reduce its willingness to make investments again and this could have a negative effect on results at GK SOFTWARE AG. However, just as was the case with our forecast in fiscal 2010 about the course of business during fiscal 2011, there are still no clearly recognizable signs, which could lead to any divergence from the growth course at GK SOFTWARE AG, from a German and European point of view.

We continue to expect significant sales growth for the GK/Retail business in 2013. We are expecting profitability levels to be maintained at the current margin level. Based on these expectations, we do not expect any erosion of the current excellent financial situation during 2013.

The Management and Supervisory Boards will suggest whether funds should be distributed as a dividend or used for future growth, depending on ongoing developments and any business opportunities that arise.

Principles of the Company's Remuneration System

The members of the Management Board not only receive a fixed salary, but also a component that is dependent on results and they are coupled to qualitative targets and mainly relates to the development of the company. These qualitative goals are set by the Supervisory Board for the members of the Management Board every year. Furthermore, pension commitments have been made to one member of the Management Board. The members of the Management Board are entitled to participate in the company's share option program according to the general rules stipulated for these programs. The allocation of share options to members of the Management Board takes place through the Supervisory Board and depends on the degree to which the members of the Management Board have met their business targets. 3,000 share options in all were granted to members of the Management Board during fiscal 2011. The following applies to the complete Management Board – if the targets that are set are fully met, their total earnings are divided up into a 70 percent share for the fixed part and a 30 percent share for variable earnings. Severance payments may be granted to members of the Management Board when they leave the firm in recognition of their outstanding work. The Supervisory Board determines whether this takes place or not.

The main features of the remuneration system used for the members of the Management Board who left their position during fiscal 2011 were described in the Group's annual consolidated accounts for 2010.

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

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

1. **Capital ratios**. The equity capital at GK SOFTWARE amounted to 1,790 K euros on 31 December 2011 and is divided up into 1,790,000 individual share certificates. Each individual share certificate represents one vote according to Section 4 of the articles of incorporation.
2. **Shareholders' rights and obligations**. The same rights and obligations are linked to each share. Shareholders are entitled to asset and administrative rights. The asset rights include the right to share in the profits and the buying option to purchase shares in any increase in capital stock. The shareholders' participation in the company's profits is also defined by their share in the equity capital. Their administrative rights include the right to take part in the company's annual shareholders' meeting, speak there and ask questions or make applications and exercise voting rights.
3. **Equity shareholdings**. The following direct or indirect shareholdings that exceed 10 percent were known on the reporting date:
   a. Mr. Rainer Gläß directly or indirectly has 521,142 shares, of which 468,350 shares are indirectly held through GK Software Holding GmbH.
   b. Mr. Stephan Kronmüller directly or indirectly has 508,850 shares, of which 468,350 shares are indirectly held through GK Software Holding GmbH.
   c. GK Software Holding GmbH directly has 936,700 shares. Mr. Rainer Gläß and Mr. Stephan Kronmüller each own half of this company.
4. **Appointments to the Management Board or amending the articles of incorporation**. Appointing or dismissing members of the Management Board are issues that are governed by Sections 84 and 85 of the German Stock Companies Act. Members of the Management Board are appointed by the Supervisory Board for a maximum period of five years and an extension of their time in office is permissible for a maximum period of five years each time. According to the articles of incorporation, the number of members of the Management Board is determined by the Supervisory Board, but the Management Board must consist of at least two persons. The Management Board at GK SOFTWARE AG currently has four members.
   The articles of incorporation can only be amended by the annual shareholders' meeting according to the rules of the German Stock Companies Act. The Supervisory Board may decide on the version of the articles of incorporation – i.e. only make grammatical amendments to the articles of incorporation. Any decisions taken by the annual shareholder's meeting only require a simple majority of votes cast, if the law does not specify anything different
5. **The Management Board's powers to issue and repurchase shares.**
   Contingency capital. According to Section 4a of the articles of incorporation, the Management Board is entitled to grant purchase options on up to 37,000 individual share certificates to members of the Management Board, company managers, where GK SOFTWARE AG already has a direct or indirect shareholding ("associated companies"), and managers at the company and their associated companies on one or more occasions until 14 May 2013, provided that the Supervisory Board approves of these measures. A share option program came into force in 2010. 12,300 share options in all were offered to company employees, but they cannot be exercised until 30 June 2012 once various conditions have been met. Of these, 2,225 options were forfeited during fiscal 2011. 9,450 other share options were offered to company employees during fiscal 2011. They cannot be redeemed until 30 June 2015 if the redemption conditions have been met. Each of the options gives the holder the right to trade in their option for a new no-par company

share made out to the holder. The shares will be fully entitled to attract profits in the business year in which they are issued.
Approved capital. According to Section 4b of the articles of incorporation, the Management Board is empowered until 14 May 2013 to increase the company's equity capital on one or more occasions by up to 500 K euros – by issuing up to 500,000 individual share certificates. Purchasing rights must be granted to the shareholders; the Management Board is, however, entitled to exclude any purchasing rights for one or several increases in capital stock as part of the approved capital in order to balance out fractional amounts, in the case of increases in capital stock against non-cash contributions, particularly when purchasing companies, if the increase in capital stock takes place through cash contributions and the proportion of the new shares issued according to Section 186 Paragraph 3 Sentence 4 of the German Stock Companies Act, which excludes any purchasing rights, does not exceed 10 percent of the equity capital.

6. **Change of control clauses.** The "SOFTWARE LICENSE AND RESELLER AGREEMENT" between SAP AG and GK SOFTWARE AG may be terminated by SAP AG for an important reason, if the majority of the shares in GK SOFTWARE AG are sold to someone, who is a direct competitor of SAP AG.
7. **Compensation agreements**. Compensation agreements with one member of the Management Board if an offer is made to take over the company. If there is a fundamental change in the make-up of the shareholders, the member of the Management Board is entitled to a financial settlement in line with the German Corporate Governance Code.

The Management Board

Rainer Gläß
(CEO)

André Hergert
(CFO)

Michael Jaszczyk
(CTO)

Oliver Kantner
(COO)


2 500
2 500
2 500

Consolidated financial statements 2011

Consolidated Balance Sheet

on 31 December 2011

Assets

EUR	Notes No.	31.12.2011 (audited)	31.12.2010 (audited)
Non-Current Assets			
Property, Plant and Equipment	2.1.; 3.1.	4,123,710.73	4,049,560.55
Intangible Assets	2.2.; 2.13.; 3.2.	9,540,196.70	9,116,134.65
Financial Assets		300.00	300.00
Active Deferred Taxes	2.11.;4.9.	460,424.00	528,599.94
Total Non-Current Assets		**14,124,631.43**	**13,694,595.14**
Current Assets			
Trade Accounts Receivable	2.3.; 3.3.	11,300,926.80	9,123,243.52
Accounts Receivable from Ongoing Work	3.4.	644,136.67	4,986,663.20
Income Tax Assets		266,366.76	684,000.72
Other Accounts Receivable and Assets	2.3.; 3.6.	3,279,053.32	2,874,184.58
Cash and Cash Equivalents	2.4.; 3.7.	13,859,453.69	13,442,168.51
Total Current Assets		**29,349,937.24**	**31,110,260.53**
Balance Sheet Total		**43,474,568.67**	**44,804,855.67**

Liabilities

EUR	Notes No.	31.12.2011 (audited)	31.12.2010 (audited)
Equity Capital	3.8.		
Subscribed Capital		1,790,000.00	1,790,000.00
Capital Reserves		14,177,069.73	13,947,106.73
Retained Earnings		31,095.02	31,095.02
Balance Sheet Profits		12,233,021.71	8,563,767.60
Total Equity Capital		**28,231,186.46**	**24,331,969.35**
Non-Current Liabilities			
Provisions for Pensions and Similar Obligations	2.6.; 3.9.	193,013.84	335,970.00
Non-Current Bank Liabilities	2.7.; 3.10.	4,408,500.00	5,242,500.00
Deferred Public Sector Subsidies	2.8.; 3.11.	991,700.25	1,053,528.25
Deferred Tax Liabilities	2.11.; 4.9.	1,029,658.66	909,461.04
Total Non-Current Liabilities		**6,622,872.75**	**7,541,459.29**
Current Liabilities			
Current Provisions	2.9.; 3.13.	915,737.93	585,223.65
Current Bank Liabilities	2.10.	834,000.00	740,500.00
Trade Accounts Payable	2.10.; 3.14.	328,930.35	476,271.33
Initial Payments Received	2.10.; 3.15.	857,006.53	6,486,525.82
Income Tax Liabilities	3.16.	651,004.89	528,211.87
Other Current Liabilities	2.10.; 3.17.	5,033,829.76	4,114,694.36
Total Current Liabilities		**8,620,509.46**	**12,931,427.03**
Balance Sheet Total		**43,474,568.67**	**44,804,855.67**

Consolidated Income Statement

for the fiscal year from 1 January to 31 December 2011

EUR	Notes No.	2011 (audited)	2010 (audited)
Ongoing Business Divisions			
Sales Revenues	2.12; 4.1.	31,753,349.73	27,689,567.41
Changes in Stocks of Unfinished Work		0.00	0.00
Own Work Capitalized	4.2.	1,488,785.20	648,834.32
Other Operating Revenues	4.3.	728,693.49	1,368,069.07
		33,970,828.42	**29,706,470.80**
Materials Expenditure	4.4.	(611,089.74)	(1,540,029.30)
Human Resources Expenditure	4.5.	(18,601,324.61)	(14,839,757.45)
Depreciation and Amortization	4.6.	(1,946,886.31)	(1,547,870.47)
Other Operating Expenditure	4.7.	(6,157,727.59)	(5,344,249.10)
		(27,317,028.25)	**(23,271,906.32)**
Operating Results		**6,653,800.17**	**6,434,564.48**
Financial Income		190,740.68	178,242.15
Financial Expenses		(275,745.11)	(306,046.89)
Financial Results	4.8.	**(85,004.43)**	**(127,804.74)**
Results before Income Taxes		**6,568,795.74**	**6,306,759.74**
Income Taxes	2.11.; 4.9.	(2,004,541.63)	(1,835,700.67)
Consolidated net income for the year/ Overall result		**4,564,254.11**	**4,471,059.07**
Profits Carried Forward		7,668,767.60	4,092,708.53
Consolidated Net Profits		**12,233,021.71**	**8,563,767.60**
Non-Diluted Earnings per Share (EUR/share)[1]	4.10.	**2,55**	**2.68**
Diluted Earnings per Share (EUR/share)	4.10.	**2.55**	**2.68**

1 Based on the 1,790,000 shares that had been issued by 31 December 2011, the undiluted earnings per share amounted to 2.50 euros in 2010.

Consolidated Results Accounts

for the fiscal year 2011

EUR	2011 (audited)	2010 (audited)
Consolidated annual net income	**4,564,254.11**	**4,471,059.07**
Equity procurement costs	0.00	(178,125.00)
Tax effect of equity procurement costs	0.00	51,887.81
Other results	**0.00**	**(126,237.19)**
Total results	**4,564,254.11**	**4,344,821.88**
Allocation of total results to the owners of the parent company	**4,564,254.11**	**4,344,821.88**

Statement of Changes in Equity

on 31 December 2011

EUR	Subscribed Capital	Capital Reserves	Retained Earnings	Balance Sheet Profits	Total
Figures on 31 December 2009	**1,665,000.00**	**7,845,779.92**	**31,095.02**	**2,240,538.27**	**11,782,413.21**
Dividend Payments	0.00	0.00	0.00	(1,665,000.00)	(1,665,000.00)
Capital Increase	125,000.00	6,125,000.00	0.00	0.00	6,250,000.00
Stock Option Program	0.00	102,564.00	0.00	0.00	102,564.00
Offsetting Equity Procurement Costs with the Capital Reserve Less Tax Effect	0.00	(126,237.19)	0.00	0.00	(126,237.19)
Consolidated Net Income for the Year	0.00	0.00	0.00	4,471,059.07	4,471,059.07
Figures on 31 December 2010	**1,790,000.00**	**13,947,106.73**	**31,095.02**	**8,563,767.60**	**24,331,969.35**
Dividend Payments	0.00	0.00	0.00	(895,000.00)	(895,000.00)
Stock Option Program	0.00	229,963.00	0.00	0.00	229,963.00
Consolidated Net Income for the Year	0.00	0.00	0.00	4,564,254.11	4,564,254.11
Figures on 31 December 2011	**1,790,000.00**	**14,177,069.73**	**31,095.02**	**12,233,021.71**	**28,231,186.46**

Consolidated Cash Flow Statement

on 31 December 2011

Cash Flows from Operating Business

K EUR	Notes No.	31.12.2011 (audited)	31.12.2010 (audited)
Cash Flows from Operating Business			
Consolidated net profit		4,564	4,471
Correction in Tax Expenditure		0	52
Stock Option Program (non-cash expenses)		230	102
Income Taxes Affecting Results		2,005	1,836
Interest Income/Expenses Affecting Results		85	128
Profit/Loss from the Sale or Disposal of Property, Plant and Equipment		(3)	5
Reversals of Deferred Public Sector Subsidies		(62)	(65)
Write-Downs Recognized for Receivables		50	200
Write-Ups Recognized for Receivables		(54)	(286)
Amortization/Depreciation		1,947	1,548
Other Non-Cash Revenues and Expenditure		1	0
		8,763	**7,991**
Changes in Net Current Assets			
Changes in Trade Accounts Receivable and Other Receivables		2,015	(8,457)
Changes in Inventories		0	0
Changes in Trade Accounts Payable and Other Liabilities		855	1,007
Changes in Initial Payments Received		(5,630)	4,248
Changes in Provisions		187	(104)
Influx Provided by Operating Business		**6,190**	**4,685**
Interest Payments Received		99	41
Interest Paid		(266)	(298)
Income Taxes Paid		(1,276)	(2,760)
Net Flow Provided by Operating Business (Transfer)		**4,747**	**1,668**

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

K EUR	Notes No.	31.12.2011 (audited)	31.12.2010 (audited)
Transfer			
(Net Cash Flow Provided by Operating Business)		**4,747**	**1,668**
Cash Flow from Investment Activities			
Payments for Property, Plant and Equipment and Non-Current Assets		(2,447)	(2,980)
Proceeds from disposals of fixed assets		5	4
Investment Subsidies Used		0	411
Disbursed Loans		(251)	(144)
Net Cash Outflow for Investment Activities		**(2,693)**	**(2,709)**
Cash Flow from Financing Activities			
Dividend Payments		(895)	(1,665)
Incoming Payments from Allocations of Equity Capital		0	6,250
Loans Taken Out		0	0
Repayment Installments for Loans		(741)	(741)
Net Income in Cash and Cash Equivalents from Financing Activities		**(1,636)**	**3,844**
Net Income in Cash and Cash Equivalents		**418**	**2,803**
Cash and Cash Equivalents at the Beginning of the Fiscal Year	5.	13,442	10,637
Impact of Changes in Exchange Rates on Cash and Cash Equivalents		(1)	2
Cash and Cash Equivalents at the end of the accounting year	5.	**13,859**	**13,442**
Limited Available Funds	3.7	34	10

Notes on the Consolidated Accounts

for the fiscal year 2011

1. Principles of Reporting

1.1. General Information

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

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

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

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

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

The consolidated group's major customers include:

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

1.2. Principles of Presentation

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

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

All the official statements or changes to official statements listed in the following table and published by the IASB, which were used for the first time in fiscal 2011, did not have any or any major effects on the presentation of the assets, financial and earnings situation or the cash flows at GK SOFTWARE.

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

Official statement	Date of publication by the IASB	Title
IAS 32	8 October 2009	Financial Instruments: Presentation
IFRIC 14	26 November 2009	Prepayments of a Minimum Funding Requirement
IFRIC 19	28 November 2009	Extinguishing Financial Liabilities with Equity Instruments
Annual Improvements Project	6 May 2010	Improvements to IFRSs

The IASB published an amendment to Standard IAS 32 "Financial Instruments: Presentation" in October 2009. This amendment was adopted into European law by the European Union in December 2009. This involves the clarification of the classification of rights issues as financial equity or a financial liability, if the rights issues are payable in a different currency from the functional currency of the emitter. In the past, these kinds of rights were entered on the balance sheet as derivative liabilities. The amendment envisages that these kinds of rights issues, which are issued at a fixed currency amount to the shareholders of a company on a pro-rata basis, should be classified as equity. The currency of the exercise price is not important. The changes come into force for business years, which start on or after 1 February 2010. The amendment does not have any major effect on the presentation of the assets, financial and earnings situation or the cash flow at GK SOFTWARE.

The IASB issued an amendment to the rules for entering pension plans in the accounts in November 2009. The amendment was adopted into European law by the European Union in July 2010. It affects the interpretation of IFRIC14 "Prepayments of a Minimum Funding Requirement," which, for its part, represents an interpretation of IAS 19 "Employee Benefits." The amendment applies in limited circumstances, where a company is subject to minimum funding rules and makes prepayment of the contributions that satisfy these requirements. It allows companies to report this kind of prepayment as an asset. The amendment came into force as a compulsory element on 1 January 2011. The use of the IFRIC interpretation 14 did not have any major effect on the presentation of the assets, financial and earnings situation or the cash flow at GK SOFTWARE.

The IASB published IFRIC Interpretation 19 on "Extinguishing Financial Liabilities with Equity Instruments" in November 2009. IFRIC 19 was adopted into European law by the European Union in July 2010. The interpretation provides assistance for interpreting IFR S for borrowers, who manage to renegotiate their loan with a finance provider so that it accepts equity instruments as the full or partial repayment of the financial liabilities. The interpretation came into force for business years that start on or after 1 July 2010. The application of IFRIC 19 did not lead to any major effects on the presentation of the assets, financial and earnings situation or the cash flow at GK SOFTWARE.

The IASB published pronouncements as part of its third "Annual Improvements Project" in May 2010, which contain amendments to six standards and one interpretation. The amendments have been adopted into European law by the European Union in February 2011. The amendments must be applied to fiscals, which begin on or after 1 January 2011, and did not have any major effect on the presentation of the assets, financial and earnings situation or the cash flow at GK SOFTWARE.

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

The IASB published IFRS 9 "Financial Instruments" in November 2009. The amendments have not yet been adopted into European law by the European Union. IFRS 9 must be applied to fiscals, which begin on or after 1 January 2015. GK SOFTWARE is checking the ramifications resulting from them for the presentation of its assets, financial and earnings situation or its cash flow.

The IASB published its pronouncement entitled "Disclosures – Transfers of Financial Assets" as a supplement to IFRS 7 "Financial Instruments: Disclosures" in October 2010. The amendment prescribes quantitative and qualitative information on these kinds of transfers of financial assets, where the transferred assets are completely closed out from the accounts or where continuing involvement remains for the company making the transfer. The amendments come into effect for business years that start on or after 1 July 2011. This pronouncement has adopted into European law by the European Union in November 2011. GK SOFTWARE is examining the effects resulting from this for the presentation of its assets, financial and earnings situation and its cash flow.

The IASB also published its rules on entering financial liabilities on the balance sheet in October 2010. These are integrated in IFRS 9 "Financial Instruments" and replace the existing rules on this matter in IAS 39 "Financial Instruments: Recognition and Measurement." This pronouncement should be applied to business years that start on or after 1 January 2015. This pronouncement has not yet been adopted into European law by the European Union. GK SOFTWARE is examining the effects resulting from this for the presentation of its assets, financial and earnings situation and its cash flow.

The IASB published its pronouncements on "Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12" in December 2010. The new official statement determines which kind of realization has to be presumed for particular assets. The statement must be applied to fiscals that begin on or after 1 January 2012, and it has not yet been adopted into European law by the European Union. GK SOFTWARE is checking the ramifications resulting from this on the presentation of its assets, financial and earnings situation or its cash flow.

The IASB published three new IFRS (IFRS 10, IFRS 11, IFRS 12) and two revised standards (IAS 27, IAS 28) on accounting practices for holdings in subsidiaries, joint arrangements and associated companies in May 2011. The rules have not yet been adopted into European law by the European Union and must be applied to fiscals, which begin on or after 1 January 2013. GK SOFTWARE is checking the ramifications resulting from them for the presentation of its assets, financial and earnings situation or its cash flow.

IASB also published IFRS 13 "Fair Value Measurement" in May 2011. This publication enables the IASB to create a unified standard for assessing fair value. IFRS 13 must be applied in future to fiscals, which begin on or after 1 January 2013. GK SOFTWARE is checking the ramifications resulting from this for the presentation of its assets, financial and earnings situation or its cash flow. The rules have not yet been adopted into European law by the European Union.

The IASB published amendments to IAS 1 "Presentation of Financial Statements" in June 2011. The amendments mean that the items shown under "Other results" must be subdivided into two categories – depending on whether they are entered in the accounts in future under the profit and loss accounts ("recycled") or not. The amendments to IAS 1 must be applied to fiscals, which begin on or after 1 July 2012, and have not yet been adopted into European law by the European Union. GK SOFTWARE is checking the ramifications resulting from them for the presentation of its assets, financial and earnings situation or its cash flow.

The IASB also published amendments to IAS 19 "Employee Benefits" in June 2011. The amendments mean that existing optional rights when entering actuarial profits and losses disappear. As the corridor method will no longer be permissible in future, actuarial profits and losses will be entered immediately in full and exclusively without having any effect on profits or losses within the equity section, which matches our procedure. Other amendments affect the recording of expenditure according to working period costs, which need to be calculated additionally, and the presentation of the net interest income for service-based pension plans and the distinction between benefits caused by the termination of an employment contract (termination benefits) and other benefits paid to the employee. The amendment to IAS 19 must be retrospectively applied to fiscals, which begin on or after 1 January 2013, and have not yet been adopted into European law by the European Union. GK SOFTWARE is checking the ramifications resulting from them for the presentation of its assets, financial and earnings situation or its cash flow.

The IASB published detailed specifications on balancing rules in IAS 32 "Financial Instruments: Presentation" in December 2011. The new rules must be retrospectively applied to fiscals, which begin on or after 1 January 2014, and have not yet been adopted into European law by the European Union. GK SOFTWARE is checking the ramifications resulting from them for the presentation of its assets, financial and earnings situation or its cash flow.

The IASB also published extended disclosure obligations on balancing rights in IFRS 7 "Financial Instruments: Disclosures" in December 2011. The new rules must be retrospectively applied to fiscals, which begin on or after 1 January 2013, and have not yet been adopted into European law by the European Union. GK SOFTWARE is checking the ramifications resulting from them for the presentation of its assets, financial and earnings situation or its cash flow.

1.3. Consolidated Companies

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

The consolidated companies not only include the parent company, SQ IT-Services GmbH, Schöneck and 1. Waldstraße GmbH, Schöneck, but also three companies based abroad (EUROSOFTWARE s.r.o., Plzen/Czech Republic, StoreWeaver GmbH, Riehen/Switzerland and OOO GK Software RUS, Moskow/Russia. StoreWeaver GmbH, Riehen/Switzerland has been set up in 2008. SQ IT-Services GmbH, Schöneck, which was founded to acquire the business operations of Solquest GmbH and 1. Waldstraße GmbH, Schöneck, which was set up in preparation to absorb new business activities, have both been included among the consolidated companies for the first time in 2009. OOO GK Software RUS, which serves as the instrument for handling business activities carried out in the Russian Federation, was founded in 2011 and was included in the consolidated companies. The subsidiary GK Soft GmbH, Basel/Switzerland, which was also set up in 2008, was merged with StoreWeaver GmbH, Riehen/Switzerland, on 30 September 2011. All the firms within the consolidated companies are exclusively owned by GK SOFTWARE AG.

1.4. Principles of Consolidation

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

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

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

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

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

1.5 Currency Conversion

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

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

2. Balance Sheet and Assessment Principles

2.1. Property, Plant and Equipment

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

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

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

2.2. Intangible Assets

2.2.1. Intangible Assets Acquired in Return for Payment

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

2.2.2. Intangible Assets Developed In-House

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

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

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

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

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

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

2.2.3. Goodwill

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

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

2.2.4. Customer Base

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

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

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

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

Otherwise, an allocation to the smallest group of units generating cash and cash equivalents takes place, for which an appropriate and constant principle of allocation can be determined.

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

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

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

2.3. Trade Accounts Receivable and Other Accounts Receivable

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

2.4. Zahlungsmittel und ZahlCash and Cash Equivalents

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

2.5. Share Option Program

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

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

The in 2010 granted subscription rights can be exercised for the first time after a waiting period of 2 years, if the beneficiary has a job at GK SOFTWARE AG or one of its subsidiaries, which has not been terminated, and the average price of the shares has been at least 50 euros on the XETRA trading floor within four weeks prior to any exercising of the rights. The right to exercise this option lapses after six months. Preemptive rights were once again granted in 2011. These preemptive rights may only be exercised after a waiting period of four years.

Development of outstanding, exercised and expired or lost options	**Number of options**
Options outstanding on 1 January 2011	12,300
Options granted during the course of fiscal 2011	9,450
Options lost during the reporting period	2,225
Options expiring during the reporting period	0
Outstanding options on 31 December 2011	19,525
Exercisable options on 31 December 2011	0

10,075 of the outstanding options on 31 December 2011 have an exercise price of 10 euros and had a probable average exercise period of one year on the balance sheet date. According to IFRS 2.11, the equivalent value of the granted options was determined by the fair value of the equity instruments on the issue date (1 July 2010), as the contractual partners are company employees or employees at associated firms. The fair value was determined using simulation in the Monte Carlo process. For the simulation process, it was presumed that the beneficiaries of the options would exercise their options as quickly as possible. On the valuation date, the price of the shares, which form the basis of the option, amounted to 54.49 euros. The retention period is 2 years, which makes 30 June 2012 the vesting date. The term of the option from the issue date is as far as 2½ years. The risk-free interest rate of 0.63 percent was derived from the WT3213 time series yield curve (Svensson method) for publicly listed Federal Treasury bonds / with a 2-year term / and issued by Deutsche Bundesbank on 1 July 2010. The volatility was calculated in line with an estimated average term of option rights of 2¼ years based on the company share price from 17 August 2008 until 18 February 2011 as historic volatility. This enabled the company to exclude as far as possible any excessive fluctuations directly after the IPO. The volatility established in this way amounted to 49.18percent. An annual dividend of 0.50 euro per share has been assumed

Based on 10,000,000 simulations, the fair value of each option was 33.354 euros, which provides a figure of 410,254 euros for 12,300 options. This figure must be entered as human resources expenditure on a pro-rata basis for the elapsed retention period and assigned to the capital reserves. The expenditure for the year under review amounted to 205,127 euros.

The remaining 9,450 options still outstanding on the balance sheet date have a strike price of 20 euros and had a probable average exercise period of 4 ¼ years on the balance sheet date. According to IFRS 21, the equivalent value of the options granted above the fair value of the equity instruments was set on the issue date (1 July 2011), as the contractual partners are employees of the company or work at firms associated with it. The fair value has been determined using a simulation in the Monte Carlo process. The simulation assumes that those entitled to options will exercise their options as quickly as possible. The stock exchange price for the shares, on which the option is based, amounted to 45.19 euros on the valuation date. The qualifying period is 4 years and the day on which the option becomes non-forfeitable is therefore 30 June 2015. The term of the option from the issue date is up to 4 ½ years. The risk-free interest rate of 2.12 percent has been taken from the daily rates from the German Central Bank on 1 July 2011 with a remaining term of 4 years based on the WT3217 time series interest structure graph (Svensson Method) for listed German government securities. The volatility has been calculated in line with an estimated average term of the option rights of 2 ¼ years based on the company's share price between 17 November 2008 and 30 December 2012 as historical volatility. This method enables the company to rule out any excessive fluctuations immediately after the IPO. The volatility determined in this way amounted to 45.63 percent. 3,000 share options were granted to members of the Management Board.

Based on 10,000,000 simulations, the fair value per option was 21,025 euros and this therefore involves a figure of 198,686 euros for the 9,450 options. This amount must be accounted for as expenditure on human resources depending on how much of the qualifying period has elapsed and must be added to capital reserves. The expenditure for the reporting year amounted to 24,836 euros. An annual dividend of 0.50 euros per share has been assumed

2.6. Provisions for Pensions and Similar Obligations

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

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

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

2.7. Non-Current Liabilities

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

2.8. Public Sector Subsidies

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

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

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

2.9. Current Provisions

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

2.10. Other Current Liabilities

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

2.11. Taxation

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

2.11.1. Current Taxes

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

2.11.2. Deferred Taxes

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

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

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

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

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

2.11.3. Current and Deferred Taxes in the Period

Current and deferred taxes are entered as expenditure or earnings in the income statement unless they relate to items, which were directly entered under equity. In this case, the tax is also entered directly under equity.

2.12. Revenue Recognition

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

2.12.1. Providing of goods

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

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

2.12.2. Providing Services

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

Revenues from licenses:

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

Revenues from services (customizing) and revenues from adjustments outside the contractually agreed service (change request):

The revenue recognition in principle takes place at the time when the agreed service is handed over to or accepted by the customer. Services are valued according to IAS 18.20 in conjunction with IAS 18.26 in order to guarantee revenue recognition (IAS 18) that meets the requirements of IFRS. In the case of service business, for which it was impossible to reliably assess the results – particularly those where the degree of completion was hard to determine – we only recorded this item in terms of expectations about the recovery of costs that were incurred (IAS 18.26). In the case of those projects where the results could be reliably assessed (IAS 18.20), revenues were entered in line with the degree of completion. Both the amount of revenues and the amount of costs incurred in the business and also the expected total costs of the business transaction can be reliably determined. It is also probable that the economic benefits will accrue for the company.

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

Revenues from servicing work:

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

2.13. Management Estimates and Appraisals

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

2.13.1. Main Sources of Uncertainty Regarding Estimates

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

Intrinsic value of intangible assets developed in-house

Management once again assessed the intrinsic value of the intangible assets developed in-house as a result of the group's development of software. Value adjustments have not been necessary. These intangible assets have been taken into account at a value of 2,363 K euros on the consolidated balance sheet dated 31 December 2011.

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

Intrinsic value of goodwill

As a result of the acquisition of the operating business of Solquest GmbH by SQ IT-Services GmbH in 2009, the group has entered an intangible asset worth 6,403 K euros as goodwill for the very first time. The intrinsic value of this goodwill was checked on 31 December 2011. There were no indications that the expected and achievable influx of funds from the unit generating cash and cash equivalents being assigned to this goodwill figure might fall below the carrying amount of the goodwill. The calculation of the value in use requires an estimate of future cash flows from the unit generating cash and cash equivalents and a suitable discount rate for the cash value calculation.

Intrinsic value of accounts receivable from ongoing work
The accounts receivable from ongoing work amounting to 644 K euros and entered on the balance sheet in line with IAS 18.27 are subject to continuing project monitoring as regards their intrinsic value. The course of the projects concerned largely matches the planning work and even the opportunity arising from recognition difficulties has not created a situation where an adjustment of the intrinsic value of accounts receivable from ongoing work needs to be made.

Intrinsic value of customer base
As a result of the acquisition of the operating business of Solquest GmbH by SQ IT-Services GmbH, the group has entered an intangible asset worth 777 K euros under customer base for the very first time in 2009. The depreciation of the customer base takes place in a performance-related way and has been entered as 330 K euros on the consolidated balance sheet on the balance sheet date. There were no indications of a need to correct the value beyond this figure.

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

3. Notes on the Consolidated Balance Sheet

3.1. Property, Plant and Equipment

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

EUR	Real estate and buildings	Technical equipment and machines	Operating and business equipment	Initial payments made and facilities under construction	Total
Purchasing or production costs					
Figures on 1 January 2011	4,012,340.69	0.00	1,872,889.02	0.00	5,885,229.71
Accruals	102,395.57	0.00	599,760.13	0.00	702,155.70
Disposals	0.00	**0.00**	41,220.27	**0.00**	41,220.27
Stand am 31. Dezember 2011	**4,114,736.26**	**0.00**	**2,431,428.88**	**0.00**	**6,546,165.14**
Accumulated depreciation					
Figures on 1 January 2011	557,380.32	0.00	1,278,288.84	0.00	1,835,669.16
Accruals	126,661.24	0.00	499,203.62	0.00	625,864.86
Disposals	0.00	0.00	39,079.61	0.00	39,079.61
Figures on 31 December 2011	**684,041.56**	**0.00**	**1,738,412.85**	**0.00**	**2,422,454.41**
Carrying amounts on 31 December 2011	**3,430,694.70**	**0.00**	**693,016.03**	**0.00**	**4,123,710.73**

Procurement obligations for other office and business equipment existed and amounted to approx. 23 K euros.

3.2. Intangible Assets

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

EUR	Capitalized development costs	Industrial property rights and similar rights and values	Goodwill	Customer base	Initial payments made	Total
Purchasing or production costs						
Figures on 1 January 2011	3,958,265.87	830,936.06	6,402,785.24	777,000.00	0.00	11,968,987.17
Accruals	1,488,785.20	253,998.30	0.00	0.00	2,300.00	1,745,083.50
Transfers	0.00	2,300.00	0.00	0.00	(2,300.00)	0.00
Figures on 31 December 2011	**5,447,051.07**	**1,087,234.36**	**6,402,785.24**	**777,000.00**	**0.00**	**13,714,070.67**
Accumulated amortization						
Figures on 1 January 2011	2,104,951.06	435,837.46	0.00	312,064.00	0.00	2,852,852.52
Accruals	**979,064.80**	**206,788.65**	**0.00**	**135,168.00**	**0.00**	**1,321,021.45**
Figures on 31 December 2011	**3,084,015.86**	**642,626.11**	**0.00**	**447,232.00**	**0.00**	**4,173,873.97**
Carrying amounts on 31 December 2011	**2,363,035.21**	**444,608.25**	**6,402,785.24**	**329,768.00**	**0.00**	**9,540,196.70**

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

Research costs of 615 K euros (157 K euros in fiscal 2010) were entered immediately as expenditure in fiscal 2011.

The cash generating unit that forms the basis of the goodwill that has been entered was determined by its utilization value, although the procurement costs must not be exceeded. The utilization value is entered as part of the purchase price, which cannot be allocated to assets that can be capitalized. The goodwill is fully assigned to the “StoreWeaver

Enterprise Edition," the unit generating cash and cash equivalents. This unit was described in the consolidated accounts for fiscal 2010 as "LUNAR Project and project business for this partial solution." The carrying amount on 31 December 2011 was unchanged at 6,403 K euros.

In order to determine the value in use of a unit that generates cash and cash equivalents, an assessment has been made of the future net cash and cash equivalent accruals. The estimates take place within the planning horizon as part of the normal conventions for Group planning. However, these have been 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 principles generally include planning the balance sheet and the income statement and planning for the expected flows of cash and cash equivalents derived from these.

The detailed planning covers the period until 2016. 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 has also been taken into account. An even shrinkage rate of 1 percent has been assumed.

The cash flow determined in this way has been discounted with an interest rate of 9.2 percent, which indicates the weighted costs of the capital prior to income taxes. Capital market data from a group of comparable companies has been used in order to determine the weighted capital costs.

The ability of the unit generating the cash and cash equivalents to continue to deliver its projects in line with contractual arrangements is crucially important for assessing the value in use. If it does not manage to do so, recourse claims from customers and damage to the 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. A significant loss of employees jeopardizes the successful completion of any 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 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. It is not possible for the Group to enforce successful sales by partner companies – nor can it affect the useful life of the software solutions that it provides. We believe that no realistic change in the major assumptions outlined above could create a situation where the carrying amount of a unit would exceed the achievable sum that it could generate.

3.3. Trade Accounts Receivable

The trade accounts receivable have a term of less than one year. The carrying amounts of the trade accounts receivable match their fair values. The total write-downs amount to 267 K euros in all (219 K euros in fiscal 2010). The write-downs have been entered under other operating expenditure.

Accounts receivable in a foreign currency (CZK) amounting to 3 K euros (10 K euros in the previous year) existed on the balance sheet date.

3.4. Accounts Receivable from Ongoing Work

Customer orders, for which sales revenues have been realized according to IAS 18.20 or according to IAS 18.26 in conjunction with IAS 18.20, must be shown as assets, if the amount of costs incurred plus the profits shown minus the losses and partial billings shown still generate a positive figure. This item amounted to 644,136.67 euros (6,987 K euros in fiscal 2010) on the balance sheet date.

3.5. Accounts Receivable from Associated Companies

There were no outstanding accounts receivable from associated companies on the balance sheet date.

3.6. Other Accounts Receivable and Assets

EUR	31.12.2011	31.12.2010
Loans paid to third parties	2,769,931.78	2,536,114.33
Tax receivables	266,366.76	684,000.72
Accounts receivable from members of the Management Board	39,475.32	13,472.18
Others	469,646.22	324,598.07
Total	**3,545,420.08**	**3,558,185.30**

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

Other accounts receivable amounting to 108 K euros existed in CZK on the balance sheet date (previous year: 139 K euros) and amounting to 14 K euros (previous year: 3 K euros) in CHF.

3.7. Cash and Cash Equivalents

Cash and cash equivalents are entered at their nominal value. The item contains cash holdings and current bank deposits with terms of less than three months. A further 34 K euros was pledged as part of rent collateral with the bank providing the guarantee (previous year: 10 K euros). The Management Board is expecting these guarantees to be taken up.

3.8. Equity Capital

We refer you to the statement of changes in equity for more information on changes to the equity at GK SOFTWARE AG on the 2011 balance sheet date.

The company's share capital amounted to 1,790,000.00 euros on 1 January 2011 and was divided into 1,790,000.00 individual share certificates, after an increase in share capital of 125,000.00 euros (corresponding to 7.5 percent of the share capital that existed at the time of the increase – i.e. 1,665,000.00 euros) was carried out on 20 December 2010 based on capital totaling 625,000.00 euros, which was approved by a decision taken at the annual shareholders' meeting on 14 May 2008. The subscribed capital on 31 December 2011 amounted to 1,790,000.00 euros, which was divided into 1,790,000 individual share certificates with a mathematical holding in the share capital of 1 euro each.

EUR	31.12.2011	31.12.2010
Subscribed capital		
1,790,000 (1,665,000) fully paid up individual share certificates	1,790,000.00	1,665,000.00
Increase in capital: issue of 125,000 individual share certificates	0.00	125,000.00
Total	**1,790,000.00**	**1,790,000.00**

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

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

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

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

Conditional capital. The management board with the agreement of the supervisory board was empowered until 14 May 2013 to grant purchasing options on up to 37,000 individual share certificates on a single occasion or on several to members of the management board and managers of companies where GK SOFTWARE AG has a direct or indirect majority holding ("associated companies") and managers of the company and their associated companies as part of a share option program. A share option program has not yet been implemented. The company made use of this authorization for the first time in fiscal 2010 and issued 12,300 share options to Group employees. The company once again issued 9,450 share options to group employees during the reporting year. According to the stipulations of the share option program, 2,225 share options from those granted in 2010 have now lapsed. There are therefore 19,525 outstanding share options – and 17,475 share options can still be granted based on the authorization that was provided.

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

Dividend payments amounting to 895,000.00 euros (representing 0.50 euro per share) were made in fiscal 2011.

3.9. Provisions for Pensions

Actuarial profits and losses are amortized immediately.

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

The calculations are based on the following assumptions:

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

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

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

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

EUR	2011	2010
Account balance on 1 January:	437,024	131,606
+ Interest expenditure	+21,849	+7,499
+ Working Period Costs	+21,204	+6,684
+ Working period costs to be additionally calculated	0	+187,231
– Actuarial Profits	3,503	0
+ Actuarial Losses	0	+104,004
Account balance on 31 December:	**476,574**	**437,024**

The development of the plan assets is shown as follows:

EUR	2011	2010
Plan assets on 1 January:	208,639	86,544
+ Expected Yields from Plan Assets	+10,674	+3,905
+ Contributions	+79,176	+8,544
– Actuarial Losses	(14,929)	0
+ Actuarial Profits	0	+2,061
Balance on 31 December:	**283,560**	**101,054**

It is therefore clear that a sum amounting to 193,014 euros (2010: 335,970 euros) in the plan is not financed by a fund.

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

EUR	2011	2010
Current Service Costs	21,204	6,684
Interest Costs	21,849	7,499
Expected Yields from Plan Assets	10,674	3,905
Actuarial Profits and Losses	14,929	104,004

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

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

EUR	2011	2010
Cash Value of the Defined Benefit Obligation	476,574	437,024
– Account Balance of the Actuarial Change in Results	(193,014)	(335,970)
Fair Value of the Plan Assets	**283,560**	**101,054**

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

EUR	Cash value of the defined benefit obligation	Fair value of the plan assets
2011	**476,574**	**283,560**
2010	437,024	101,054
2009	131,606	86,544
2008	126,520	77,801
2007	122,331	69,340

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

EUR	Liabilities of the plan	Assets of the plan
2011	**3,503**	**14,929**
2010	(42,275)	(2,061)
2009	2,666	3,330
2008	9,433	3,065
2007	2,369	3,112

We assume that contributions amounting to 79,176 euros will be paid into the plan during 2012. The actual revenues from the planned assets during the fiscal year amounted to −4,255 euros following a figure of 5,966 euros in the previous year.

3.10. Non-Current Bank Liabilities

Two investments loans (original amounts: 750 K euros and 450 K euros) were taken out with the Commerzbank AG Plauen in fiscal 2007. The group also took over a loan (original amount: 225 K euros) from Gläß & Kronmüller OHG, Schöneck in the course of the merger. The loan, which was taken over during the course of the merger, was rescheduled during fiscal 2009. The two other loans were valued at a total of 761 K euros on the balance sheet date. Three other loans were taken out during fiscal 2009 as a result of the new extension building, the above mentioned rescheduling and the acquisition of Solquest (DZ Bank 748 K euros, KfW 5,000 K euros). These loans were valued at 3,745 K euros on

31 December 2011 with their non-current share (due date after 31 December 2012).

3.11. Public Sector Subsidies Charges to Subsequent Accounting Years

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

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

3.12. Deferred Taxes

Please refer to section 4.9.

3.13. Current Provisions

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

EUR	Human resources department	Production depart-ment	Other depart-ments	Total
Figures on 1 January 2010	338,415.50	265,600.00	197,751.10	801,766.60
Amounts used	168,213.92	30,000.00	108,818.13	307,032.05
Amortization	170,201.58	0.00	0.00	170,201.58
Allocation	178,689.75	25,000.93	57,000.00	260,690.68
Figures on 31 December 2010	**178,689.75**	**260,600.93**	**145,932.97**	**585,223.65**
Figures on 1 January 2011	178,689.75	260,600.93	145,932.97	585,223.65
Amounts used	178,403.37	0.00	53,832.54	232,235.91
Amortization	286.38	7,875.00	2,700.00	10,861.38
Allocation	179,507.50	313,104.07	81,000.00	573,611.57
Figures on 31 December 2011	**179,507.50**	**565,830.00**	**170,400.43**	**915,737.93**

The current provisions in the human resources department primarily concern bonuses and exclusively guarantees in the production department.

3.14. Trade Accounts Payable

Accounts receivable are due to settled within one year.

Accounts payable in foreign currencies amounting to 15 K euros (15 K euros in the previous year) existed in CZK on the balance sheet date and amounting to 13 K euros (previous year: 0 K euros) in CHF.

3.15. Initial Payments Received

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

3.16. Income Tax Liabilities

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

3.17. Other Current Liabilities

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

Other liabilities in foreign currencies amounting to 267 K euros (276 K euros in the previous year) existed in CZK on the balance sheet date and amounting to 0 K euros (previous year: 10 K euros) in CHF.

EUR	31.12.2011	31.12.2010
Tax liabilities	1,635,457.99	1,896,390.42
Liabilities from wages and salaries	3,042,943.15	1,366,798.38
Other liabilities towards members of staff	8,806.92	14,490.14
Others	346,621.70	837,015.42
Total	**5,033,829.76**	**4,114,694.36**

3.18. Secured Liabilities

Two investment loans were taken out with the Commerzbank AG Plauen in fiscal 2007. The loans are secured by the registered land charges on the company's real estate (Carrying amount 3,557 K euros), recorded in the land register for Schöneck, Plauen Local Court, Page 1895. The company also assigned its accounts receivable from goods deliveries and services against third party debtors by means of a blanket assignment in order to provide collateral, with the exception of the accounts receivable (secured exposures: 543 K euros on 31.12.2011; previous year: 1,824 K euros) in connection with the "LUNAR" project. Three other loans were taken out (DZ Bank, KfW) during fiscal 2009 as a result of the extension of the new building, the above mentioned rescheduling and the acquisition of Solquest. Land register debts were entered in the land register for Schöneck, Plauen Local Court, Pages 999, 1378 and 1895 as collateral for the DZ loan. The future accounts receivable from the "LUNAR" project were assigned in an undisclosed manner in order to provide collateral with the KfW.

4. Notes on the Consolidated Income Statement

4.1. Sales Revenues

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

There were no sales recorded during the business year for sales that were calculated according to IAS 18.20 in conjunction with IAS 11 (customized software). Sales amounting to 672 K euros were realized during the reporting period as sales that were calculated according to IAS 18.27.

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

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

4.2. Own Work Capitalized

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

4.3. Other Operating Revenues

EUR	2011	2010
Vehicle use	334,441.25	278,927.44
Reversals of provisions	10,861.38	259,377.65
Reduction value adjustments	54,101.21	164,000.00
Earnings from reversals of deferred public grants	65,120.12	68,042.61
Employee contributions towards food allowances	49,737.36	42,193.02
Earnings from other periods	0.00	10,923.52
Earnings from investment grants	6,707.88	6,707.88
Contributions towards reinsurance	0.00	122,095.11
Others	207,724.29	415,801.84
Total	**728,693.49**	**1,368,069.07**

4.4. Materials Expenditure

EUR	2011	2010
Expenditure on raw materials, consumables and supplies and goods purchased	173,554.92	534,629.54
Expenditure on purchased services	437,534.82	1,005,399.76
Total	**611,089.74**	**1,540,029.30**

4.5. Human Resources Expenditure

EUR	2011	2010
Wages and salaries	16,028,735.26	12,292,316.94
Social security contributions	2,524,423.60	2,140,632.60
Expenditure on retirement benefits	48,165.75	406,807.91
Total	**18,601,324.61**	**14,839,757.45**

On average, 398 people were employed during fiscal 2011 (324 in the previous year). 428 people were employed on the balance sheet date of 31 December 2011.

4.6. Depreciation and Amortization

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

4.7. Other Operating Expenditure

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

4.8. Financial Results

EUR	2011	2010
Interest income	190,740.68	178,242.15
Interest expenditure	(275,745.11)	(306,046.89)
Total	**(85,004.43)**	**(127,804.74)**

4.9. Income Taxes

EUR	2011	2010
Current tax liabilities	1,816,168.07	1,632,937.15
Deferred tax liabilities	188,373.56	202,763.52
Total	**2,004,541.63**	**1,835,700.67**

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

The deferred taxes are included in the following items:

EUR	31.12.2011 Assets	Liabilities	31.12.2010 Assets	Liabilities
Fixed assets	0.00	1,456.50	0.00	1,456.50
Intangible assets	0.00	1,028,202.16	0.00	734,070.60
Provisions for guarantees	5,048.23	0.00	0.00	3,033.28
Provisions for pensions	49,044.14	0.00	77,292.60	0.00
Accounts Receivable from Ongoing Work	1,485.63	0.00	60,783.63	170,900.66
Intangible assets acquired through the Solquest purchase (goodwill and customer relations)	404,846.00	0.00	390,523.71	0.00
Total according to balance sheet	**460,424.00**	**1,029,658.66**	**528,599.94**	**909,461.04**

Deferred tax claims / liabilities result from:

EUR	31.12.2011 Initial balance	Recognized as earnings	Final balance	31.12.2010 Initial balance	Recognized as earnings	Final balance
Fixed assets	(1,456.50)	0.00	(1,456.50)	0.00	(1,456.50)	(1,456.50)
Provisions for pensions	77,292.60	(28,248.46)	49,044.14	1,159.08	76,133.52	77,292.60
Provisions for guarantees	(3,033.28)	8,081.51	5,048.23	0.00	(3,033.28)	(3,033.28)
Intangible assets – in-house developed software	(734,070.60)	(294,131.56)	(1,028,202.16)	(567,812.07)	(166,258.53)	(734,070.60)
Intangible assets acquired through the Solquest purchase (goodwill and customer relations)	390,523.71	14,322.29	404,846.00	351,269.00	39,254.71	390,523.71
Accounts Receivable from Ongoing Work	(110,117.04)	111,602.67	1,485.63	37,286.40	(147,403.44)	(110,117.04)
Total	**(380,861.11)**	**(188,373.55)**	**(569,234.66)**	**(178,097.59)**	**(202,763.52)**	**(380,861.11)**

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

Transfer of tax expenditure/EUR	2011	2010
Pre-tax earnings	6,568,795.74	6,306,759.74
Anticipated tax expenditure 29.1%	1,911,519.56	1,835,267.08
Tax impact on non-deductible company spending	15,093.32	433.59
Tax impact on tax-free income	0.00	0.00
Other tax effects	77,928.75	0.00
Actual tax expenditure	**2,004,541.63**	**1,835,700.67**
Effective tax rate	**30.5%**	**29.1%**

4.10. Earnings per Share

The earnings per share are determined as a quotient from the consolidated annual net income and the weighted average of the number of shares in circulation during the business year. The average number of issued shares during fiscal 2011 was 1,790,000 (1,668,767 in the previous year). The consolidated annual net income on the balance sheet date amounted to 4,564 K euros (4,471 K euros on 31 December 2010). As a result, the earnings per share amounted to 2.55 euros (2.68 euros on 31 December 2010). The share option program dilutes the earnings to 2.55 euros and is therefore the same as the undiluted earnings per share.

4.11. Use of Profits

The Management Board is intending to suggest to the 2011 annual shareholders' meeting that a dividend of 0.50 euro should be paid from the balance sheet profits at GK SOFTWARE AG (5,305,398.04 euros) determined in line with German commercial law rules and the remaining amount (4,410,398.04 euros) should be carried forward to the new account. As 1,790,000 shares are in circulation, the company will have to make dividend payments amounting to 895,000.00 euros to its shareholders, if the annual shareholders' meeting approves this proposal.

5. Notes on the Cash Flow Statement

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

6. Segment Reporting

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

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

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

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

	GK/Retail		SQRS		Eliminations		Group	
K EUR	2011	2010	2011	2010	2011	2010	2011	2010
Sales with third parties	**29,426**	**24,380**	**2,327**	**3,310**	**–**	**–**	**31,753**	**27,690**
Licenses	8,295	7,981	–	296	–	–	8,295	8,277
Servicing work	7,201	5,461	1,545	1,490	–	–	8,746	6,951
Services	13,707	10,335	761	1,417	–	–	14,468	11,752
Other matters	251	631	21	119	–	–	272	750
Revenue reductions	(28)	(28)	–	(12)	–	–	(28)	(40)
Sales with the other segment	**1,950**	**1,615**	**0**	**0**	**(1,950)**	**(1,615)**	**–**	**–**
EBIT segment	**6,686**	**5,379**	**(33)**	**1,056**	**0**	**0**	**6,653**	**6,435**
Assets	**43,347**	**44,309**	**2,139**	**2,861**	**(2,011)**	**(2,365)**	**43,475**	**44,805**
Cash and cash equivalents	**12,760**	**11,802**	**1,099**	**1,640**	**–**	**–**	**13,859**	**13,442**

Depreciation/amortization of 1,750 K euros accumulated for the GK/Retail segment and 197 K euros for SQRS. The company is standing by its decision to no longer sell the SQRS software solutions in the future, in order to streamline the Group's product portfolio.

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

The company achieved sales amounting to 4,704 K euros with customers that have their headquarters outside Germany. The share of sales from the SQRS business area amounted to 286 K euros. In addition, there were sales with customers, which have their headquarters in Germany, but which asked the company to render accounts to the relevant national companies receiving the services. These sales amounted to 430 K euros, but are valued as domestic sales because of the contractual basis and were fully assigned to the GK/Retail business area.

Sales with customers, which have a share of sales of more than 10 percent, were achieved and amounted to approx. 11,938 K euros or 37.6 percent of the total sales in fiscal 2011. These sales related to the GK/Retail segment

7. Other Information

7.1. Financial Instruments

The financial instruments include original and derivative financial tools.

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

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

The market value of these interest capping mechanisms on a nominal volume of 895 K euros – derived from the mid-market price – amounted to a total figure of 475.83 euros on the balance sheet date. All the capping mechanisms had a positive market value.

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

The financial assets of GK SOFTWARE are subject to a write-down of 264 K euros (200 K euros in the previous year) on 31 December 2011. Of this sum, 56 K euros (90 K euros in the previous year) applies to individual write-downs of accounts receivable. Write-downs of 211 K euros (121 K euros in the previous year) applied to the blanket write-downs on trade accounts receivable.

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

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

IFRS 7.8	Categories	Balance Sheet Items	Amount K EUR	Previous year Amount K EUR
a)	Financial Assets Assessed on the Balance Sheet at Fair Values	N/A	–	–
b)	Financial Investments to be Retained until Final Due Date	N/A	–	–
c)	Loans and Accounts Receivable	Trade accounts receivable, accounts receivable from ongoing work, part sum for other accounts receivable according to individual statement in no. 3.6 (accounts receivable from Management Board members; loans made available to third parties)	14,754	17,459
d)	Financial Assets Available for Sale	N/A	–	–
e)	Financial Liabilities Assessed on the Balance Sheet at Fair Values	N/A	–	–
f)	Financial Liabilities Assessed at amortized costs	Non-current and current bank liabilities, accounts payable, part sum for current provisions according to individual statement in no. 3.13 (human resources department, other departments), part sum for other liabilities according to no. 3.17 (Liabilities from wages and salaries, other liabilities towards employees, liabilities from the acquisition price for the operating business of Solquest GmbH)	8,982	8,164

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

Loans and Accounts Receivable	K EUR	Previous year K EUR	Reference
Write-ups for Amortized Accounts Receivable	54	164	Notes No. 4.3
Expenditure from the Allocation of Write-ups	**(267)**	**(200)**	
Balance	(213)	(36)	
Financial Liabilities Valued at amortized cost	N/A	N/A	N/A

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

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

The maturity structure as of 31 December is shown in the table below:

EUR	2011	2010
Not pastdue	10,491,042.40	8,449,335.22
1 to 30 days past due	242,083.73	345,575.78
31 to 90 days past due	154,702.05	128,333.28
more than 90 days past due	413,098.62	199,999.24
Total	**11,300,926.80**	**9,123,243.52**

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

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

The total amount of the value adjustments was in the order of 267 K euros.

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

The company had taken out the following loans by 31 December 2011:

Loan	Amount EUR	Value (EUR) 31.12.2010	Value (EUR) 31.12.2008
Investment loan with the Commerzbank Plauen:	750,000.00	412,500.00	487,500.00
Investment loan with the Commerzbank Plauen:	450,000.00	348,750.00	371,250.00
ERP loan from the Commerzbank Plauen:	180,000.00	139,500.00	157,500.00
Loan from the KfW, Frankfurt:	5,000,000.00	3,593,750.00	4,218,750.00
Loan from the DZ-Bank:	748,000.00	748,000.00	748,000.00
Total	**7,128,000.00**	**5,242,500.00**	**5,983,000.00**

The investment loans with the Commerzbank Plauen will be repaid on schedule with constant installments by 30 June 2017 (annual repayment of 75 K euros) and 30 March 2027 (annual repayment of 22,5 K euros). The KfW-Commerzbank loan from ERP funds has a term until 30 September 2016 and is being repaid with an annual amount of 18 K euros. The loan from the KfW Bank has a term until 30 September 2017 and is being repaid with an annual installment of 625 K euros. No installments have to be paid on the loan from the DZ Bank, which has a term until 1 October 2019, until 1 January 2012 and it will then be repaid on schedule with installments of 93.5 K euros.

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

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

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

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

Market risks:

- Currency risks: The Company only has a small amount of foreign currency accounts receivable and payable in CZK and CHF. They are specified in the annex and under no. 3.3., 3.6., 3.14. and 3.17. We report on the currency risks associated with this as part of a simulation later in this document.
- Interest risks: With the exception of the loans that have been taken out, all the financial instruments are current. There are therefore no interest risks that need to be reported. Interest of Three-Month EURIBOR +1.8 percentage points is payable on the investment loans taken out at the Commerzbank Plauen before 1 January 2009. For commercial reasons, the loans have been hedged using interest ceiling mechanisms, as reported above. No security has been provided for the loans taken out during fiscal 2009 on account of the current capital market situation. But the situation is being constantly monitored.

The assessment of the market risks provides the following picture: Currency risks could only result from exposure to the Czech crown and in Swiss franc and they are restricted to section 3.3 (Trade Accounts Receivable amounting to 3 K euros (CZK)), section 3.6 (Other Accounts Receivable and Assets amounting to 108 K euros in CZK and 14 K euros in CHF), section 3.14 (Trade Accounts Payable amounting to 15 K euros in CZK and 13 K euros in CHF) and section 3.17 (Other Current Liabilities amounting to 267 K euros in CZK). This assessment was made on the balance sheet date at an exchange rate of CZK 25.475 for one euro and 1.2158 CHF for one euro. A change in this exchange rate of the Czech crown by one percent changes the value of these assets and liabilities by nearly 5 K euros on the balance sheet. A change in the exchange rate between the Swiss franc and the euro of this kind of dimension (i.e. by 1 percent) would lead to a changed, balanced valuation statement of the assets and debts held in Swiss francs of approx. 1 K euro. This only affects the valuation of incoming and outgoing cash and cash equivalents, which take place in a foreign currency, as the assets and debts exist in the currency concerned and are also paid in it. In the light of this and because this change in valuation does not have any effect on equity, the company decided not to carry out an in-depth sensitivity analysis.

The interest risks are the result of the agreed interest payments in loan contracts. There is no link here with the currency risk, because the loans have been listed in euros. Interest payments amounting to 266 K euros were made during the current year and entered on the balance sheet. The interest rate from the KfW loan agreement covering 5,000 K euros was fixed until 30 September 2012 and the rate for the DZ Bank is fixed throughout the whole term, so there are no interest risks linked to these loans. The interest for the investment loans with the Commerzbank worth 750 K euros and 450 K euros are fixed quarterly at a rate 1.8 percentage points above the Three-Month EURIBOR. The interest risk has been restricted by interest capping mechanisms set at 5.2 percent. The interest rate for the loan from Commerzbank Plauen of 180 K euros is also set quarterly at a rate of 1.5 percentage points above the Three-Month EURIBOR. An interest capping mechanism restricts the risk here to a term with 4 percent. If the Three-Month EURIBOR rate changed by one percentage point, this would result in a change in the interest payments of 19 K euros in fiscal 2011 (determined using the actual interest burden in fiscal 2011 and changing the interest rate). There are no risks related to interest on credit on account of the current low rates of interest available on credit. Nevertheless, we are keeping a careful eye on developments in interest on credit. It is possible to adapt our investment strategy quickly because the assets are only invested on a short-term basis.

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

7.2. Contingent Liabilities

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

One credit by way of bank guarantees amounting to 34 K euros as far as contingent liabilities is concerned and this loan is granted by Volksbank Vogtland e.G. The guarantee is part of the normal collateral for leasing payments at the Berlin office and is secured by the pledging of cash deposits. The Management Board does not expect it to be necessary to make use of the guarantee.

7.3. Operating Leasing Agreements

The operating leasing agreements relate to vehicle leasing arrangements. The payments entered as expenditure for fiscal 2011 amount to 526 K euros.

Payment obligations from operating leasing contracts amounting to 861 K euros (444 K euros are due for payment within one year and 417 K euros within five years) exist. There are no finance/leasing agreements.

7.4. Subsidiaries

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

GK Soft GmbH, Basel/Switzerland was merged with StoreWeaver GmbH, Riehen/Switzerland, on the reporting date on 30 September 2011.

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

7.5. Details of Associated Persons and Corporations

Expenditure for write-downs or irrecoverable claims from associated persons were not necessary or did not exist.

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

Parent Company
The direct parent company is GK Software Holding GmbH, Schöneck. No business relations existing during fiscal 2011.

Management Board
The following people are members of the Management Board:

- Mr. Rainer Gläß, Schöneck, CEO, Dipl.-Ingenieur
- Mr. André Hergert, Hamburg, CFO, Dipl.-Kaufmann
- Mr. Stephan Kronmüller, Schöneck, CTO, Dipl.-Ingenieur (until 31 October 2011)
- Mr. Michael Jaszczyk, Bornheim, CTO, data processing expert (from 1 November 2011)
- Mr. Ronald Scholz, Rodewisch, COO, Dipl.-Ingenieur (until 31 October 2011)
- Mr. Oliver Kantner, Buchholz, COO, business management expert (from 1 November 2011)

The total remunerations of the members of the Management Board in fiscal 2011 amounted to 1.596 K euros(of which fixed salaries account for 956 K euros and variable salaries 586 K euros and non-cash benefits amount to 54 K euros). The total earnings of members of the Management Board, who left the company, amounted to 1,312 K euros. Provisions for members of the Management Board who have left the company were formed to the tune of 39 K euros on 31 December 2011.

Those persons, who were or still are members of the company's Management Board or Supervisory Board during fiscal 2011, received the following GK SOFTWARE AG share options directly on 31 December 2011:

The members of the Management Board directly held the following shareholdings in GK SOFTWARE AG on 31 December 2011:

Mr. Rainer Gläß	52,792 shares	2.95%
Mr. Stephan Kronmüller	40,000 shares	2.23%
Mr. Ronald Scholz	20,300 shares	1.13%
Mr. Herbert Zinn	1,000 shares	0.06%
Mr. André Hergert	500 shares	0.03%

In addition to this, Mr. Gläß and Mr. Kronmüller each indirectly held 468,350 shares through GK Software Holding GmbH on 31 December 2011.

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 (since 16 June 2011)
- Mr. Thomas Bleier, Oelsnitz, businessman
- Mr. Heinrich Sprenger, Iserlohn, entrepreneur (until 16 June 2011)

The total earnings of the Supervisory Board at GK SOFTWARE AG in fiscal 2011 amounted to 40 K euros (40 K euros in the previous year).

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

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

Accounts receivable from associated corporations and persons:

K EUR	31.12.2011	31.12.2010
Loans to associated companies, which are not part of the consolidated group	1,837	1,597
Other Accounts Receivable from the Management Board	39	13
Total	**1,876**	**1,610**

The loan was granted for an unlimited period and interest of 5 percent is being charged. It can be terminated with a period of notice of three months to the end of any year. Salary claims from Mr. Rainer Gläß and Mr. Stephan Kronmüller to GK SOFTWARE AG serve as collateral for the loans. In addition, consultancy fees with associated persons were incurred and amounted to EUR 34 K.

7.6. Auditor's Fee

The following expenditure was incurred: 99 K euros by the Group's auditor for checking the 2011 annual accounts, 3 K euros by other auditors and 19 K euros for other services. The consulting fee for tax accountancy work by the Group auditor amounted to 89 K euros.

7.7. Statement of Compliance

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

7.8. Information after the Annual Accounts Reporting Date

Information about circumstances, which were available at the annual accounts reporting date, was taken into account if the Management Board found out about this by 28 March 2012.

7.9. Approving the Annual Accounts

The annual accounts were approved by management on 28 March 2012 and released for publication.

Schöneck, 28 March 2012

The Management Board

Assurance by the legal representatives

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

Schöneck, 28 March 2012

The Management Board

Rainer Gläß
(CEO)

André Hergert
(CFO)

Michael Jaszczyk
(CTO)

Oliver Kantner
(COO)

Audit Opinion

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

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

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

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

Our audit did not lead to any objections.

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

Dresden, 28 March 2012

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Otter)	(Kahlert)
Auditor	Auditor

Imprint/Notes

Imprint

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Notes

Note to the Annual Report

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

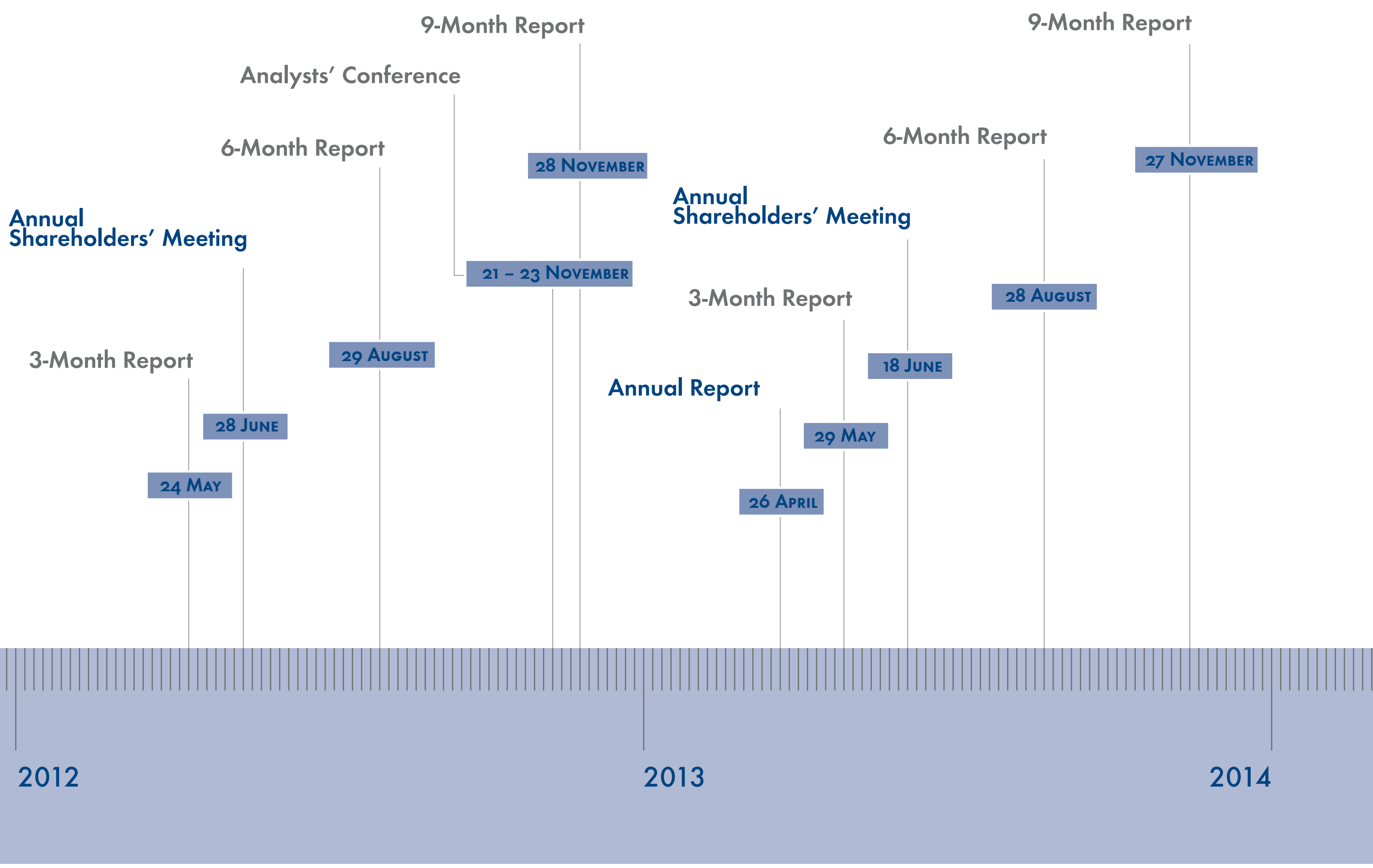
Note regarding the rounding of figures

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

Disclaimer

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

Financial Calendar



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